Canada. Royal commission on energy.
Hearings. v. 54-57, 1958.

1958

Mr Borden

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

MONTREAL

P. Q.

VOLUME No.: 55

DATE: JUL 15 1958

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO. LTD.
371 BAY STREET
TORONTO
EM. 4-5773 EM. 4-5865

Tuesday,
July 15, 1958.

---On resuming at 10.00 a.m.

Submission of the

CANADIAN COMMERCIAL
COAL DOCK OPERATORS' ASSOCIATION

APPEARANCES:

Mr. Kenneth C. Culham - President, Canadian Commercial Coal Dock Operators' Association

Mr. H.L. Wyatt - Vice-President - Traffic Rochester and Pittsburgh Coal Co. (Canada) Ltd., Toronto

Prof. Leonard C. Macgregor - Department of Political Economy, University of Toronto

----

THE CHAIRMAN: The Commission will now resume its hearings. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman. Mr. Chairman, today we are going to commence with the submission of the Canadian Commercial Coal Dock Operators' Association which has been filed with us and which I am asking be marked M-15-1. There is a revision to the submission as filed which has just been handed about and which I propose be marked as M-15-2.

Mr. Culham is going to lead for his group, and he will introduce the other members of it.

MR. CULHAM: Mr. Chairman, Commissioners,

my name is Kenneth C. Culham. I am employed by the Empire Hanna Coal Division of the Empire Hanna Company, and I am president of the Empire Hanna Coal Division. I have with me on my right Professor Donald C. Macgregor of the Department of Political Economy of the University of Toronto, and on my left is Mr. H.L. Wyatt, Vice-President, Traffic, Rochester and Pittsburgh Coal Company (Canada) Limited, Toronto.

I hope later to be able to have the benefit of Mr. George P. Cooper, Vice-President of the Empire Hanna Division; he is not here yet.

This submission is made on behalf of the Canadian Commercial Coal Dock Operators' Association. Our members, as suppliers of the main form of industrial fuel used in Central Canada, welcome the opportunity of being represented before your Royal Commission and beg to offer this submission under clauses (b), (c) and (e) of your terms of reference.

All of the Association's member firms are engaged in operating docks for the storage and distribution of water-borne bituminous coal, their field of operation being the Great Lakes and connecting waters from Fort William to Montreal.

We do not wish to burden the record with well-known facts about the enormous reserves of coal south of the Great Lakes, their quality and

the name of Kenneth C. [illegible]. I am [illegible] of the Eastern Nova Scotia [illegible] and [illegible], whose Secretary, and I am [illegible] in each [illegible] coal Division. I have with me [illegible] Professor Donald C. MacGregor of the Department of Political Economy of the University of Toronto, and Mr. [illegible] of Toronto, A.M. Smith, Vice-President, Traffic Bureau and [illegible] (Canada) Limited, Toronto.

I hope [illegible] to be able to have the [illegible] of Mrs. George C. [illegible] [illegible] the entire [illegible] [illegible] as [illegible].

This submission [illegible] on behalf of the Canadian Commercial Coal [illegible] [illegible] [illegible] but [illegible] as [illegible] of the coal [illegible] industrial [illegible] [illegible] [illegible], the [illegible] of the [illegible] Royal Commission and the [illegible] under clauses (b), (c) and (f) of the terms of reference.

All of the [illegible] [illegible] engaged in [illegible] [illegible] [illegible] [illegible] [illegible] field of [illegible] [illegible] [illegible] [illegible] [illegible] [illegible].

We do not wish to [illegible] the [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] of the [illegible] [illegible] [illegible].

variety, or their comparative nearness to Central Canada's market, fundamental though these are to the economics of our fuel supply. Nor does it seem necessary to elaborate on the arrangements for transport, storage and distribution of coal except as they bear on the present problem. Data on all these matters were presented in a numberof submissions before the Royal Commission on Coal in 1945 and were supplemented by inquiries undertaken by that Commission's research staff, the whole being digested in the Commission's Report. For your convenience, however, we attach an appendix giving a list of the earlier submissions in Part A and reproducing some of the descriptive passages in full in Part B. We also append a list of our present membership in Part C.

To avoid misunderstanding we wish to say at the outset that we specialize almost entirely in bituminous coal and are therefore concerned primarily with fuel destined for boiler use, for metallurgy and other industrial purposes.

In this submission we deal mainly with the consequences of selling natural gas, at rates below average cost, for use under steam boilers. We are especially concerned with sales of gas on an interruptible basis, and with firm gas offered to industry on a seasonal basis during the six or eight warmer months of the year. These two kinds

of service have been referred to in a recent article by Mr. Charles Coates, the President of Trans-Canada Pipe Lines Ltd., as "off-season dump gas" (Financial Times, London, 24 February, 1958, Supplement on Canada, p.41). We believe that these types of service, if offered on the scale anticipated, will have adverse consequences for many large users of bituminous coal.

II. TOTAL CONSUMPTION OF FUEL ENERGY AND THE PREDICTED DIVERSION TO GAS.

The recent industrial consumption of fuel energy in Ontario and Quebec, as provided from coal and oil is shown in Table I. Part I of the table shows that in 1954 the total industrial energy consumption by way of coal and oil in Ontario and Quebec (expressed in units of MMM B.t.u.) was some 395,000 units. Of this total almost 300,000 units or 75.8% were provided by coal and some 95,000 units, or 24.2%, by oil. This was the consumption in the somewhat depressed year of 1954. Two years later, in 1956, the corresponding industrial consumption of fuel energy had risen by one-fourth, to 498,000 units. Of this larger total some 364,500 units were provided by coal, or 73.2%, and 133,500 units or 26.8% by oil.

The lower part of the table, marked Part II, gives the experience of Ontario and Quebec separately, showing the preponderance of coal in Ontario and

of oil in Quebec. The corresponding quantities in the customary units of net tons and barrels are also shown -- and I interject here, that the missing figures on Table I, Part II, were supplied belatedly by the Dominion Coal Board. We have those figures, and, rather than put them into the record, we would suggest we make them available to the Commission because there are also included some revisions of the 1954 figures.

In Part III of Table I will be found, for comparison, Trans-Canada's forecast of the distributors' natural gas sales to industrial consumers only, taken from its Exhibit 6. The table shows a forecast of 136,746 units (MMM B.t.u.) of gas to be sold to industry in 1962-63. This represents a very large amount of energy, no less than 27 per cent of the 498,000 units (approximately) derived by industry from both coal and oil for 1956. When compared with coal alone, these 136,746 units amount to 37 1/2 per cent of the energy derived by industry from bituminous coal in 1956. They are the equivalent of some 5,065,000 tons of coal.

We recognize the imperfections of a comparison between the actual total for 1956 and a forecast for 1962-63. A more logical method, though more difficult and conjectural, would compare the forecasts of industrial gas sales in the 1960's with corresponding forecasts for coal

and oil, on the assumption that no western gas was being used. Such a comparison would recognize that, as total energy consumption probably will have grown by 1963, the proportionate displacement of coal and oil owing to substitution of 137,000 units of gas would amount to a corresponding smaller proportion of the total at that time (i.e. less than 37 1/2 per cent) -- and I interject here for the record that of this total indicated by Trans-Canada there are some 72,000 units scheduled to be destined for interruptible use which we feel is synonymous with boiler fuel use, being comparable to 3 million tons of boiler fuel.

TABLE I, PARTS I, II and III

PART I INDUSTRIAL FUEL CONSUMPTION IN ONTARIO AND QUEBEC

MMM - 1,000,000,000

COAL AND OIL

Actual Industrial Consumption
MMM B.t.u.

YEAR	COAL	OIL	TOTAL
1954 (a)	299,675	95,626	395,301
1956	364,500*	133,500*	498,000*

(a) C.L. O'Brian et al: Energy in Eastern Canada. Offprint from Trans., C.I.M.M., 1955, vol. LVIII. p. 6,10.

PART II DETAILS OF COAL AND OIL: BY PROVINCES AND IN TONS AND BARRELS

	COAL		OIL	
	MMM B.t.u.	Tons (net)	MMM B.t.u.	Bbls. (35 gals.)
1954				
Ontario	215,287	8,240,000	45,231	7,798,000
Quebec	84,388	3,130,000	50,395	8,689,000
TOTAL	299,675	11,370,000	95,626	16,487,000
1956				
Ontario				
Quebec				
TOTAL	364,500A	13,500,000A	133,500A	23,000,000A

A approximate figure

PART III FORECASTS FOR NATURAL GAS(b) Anticipated Industrial Sales by Trans-Canada Pipe Lines

MMM B.t.u. = MMcf.

YEAR OF FORECAST	Interruptible Gas	Firm Gas	Total Industrial
1960-61	52,719	52,494	105,213
1962-63	72,343	64,403	136,746
1967-68	106,436	92,699	199,135
1972-73	157,044	132,411	289,455

(b) Submission of Trans-Canada Pipe Lines, Exhibit 6; Hearings, p. 1907, 2253,2291-93.

The comparison must also recognize, however, that by 1963 the pipeline can be made to deliver appreciably more gas than the amount stated in Trans-Canada's forecast.

We recognize that natural gas will displace oil as well as coal in the industrial market. To the extent that this happens, and that Trans-Canada's forecast is not exceeded, somewhat less

coal may be displaced than the 5,065,000 tons already mentioned. We are not in a good position to estimate the consequences of oil, but we believe that whatever the role of oil in the readjustment, the main outlines of the development are fairly clear: a great part of the summer market for coal may be lost to interruptible and seasonal gas for quite a number of years.

It goes without saying that this would be unfortunate for the members of our association and particularly for their employees. We have not come before this Royal Commission to bewail our lot, however, but rather to point out the consequences for our customers and for the community as a whole.

To assist in interpreting the first table we add a second, marked Table II, showing the seasonal fluctuation in industrial coal consumption during 1957 in Ontario and Quebec combined. The table shows that industrial consumption is fairly well maintained during the six warmer months of the year. It is the prospective loss of a considerable part of this warm-weather tonnage, combined with the problem of still being expected to satisfy a full winter demand, which is our main concern. In effect we are being asked to operate at an annual load factor in the neighbourhood of 50 to 60 per cent, with much the same peak load as before and with the same public responsibilities, so that natural gas can operate at its

objective of a 90-95 per cent load factor continuously throughout the year.

TABLE II

CONSUMPTION OF COAL AND COKE BY INDUSTRIAL CONSUMERS, ONTARIO AND QUEBEC, 1957 (1)

	Short Tons		
January	1,368,151		
February	1,260,073		
March	1,312,533		
April	1,198,342		
May	1,115,933		)
June	993,273)	4 months	) 6 months
July	932,743)	June - September:	) May - October:
August	944,152)	3,861,179 tons	) 6,096,193 tons
September	991,011)	28.6% of	) 45.2% of
October	1,119,081	year's total	) year's total
November	1,134,234		
December	1,128,628		
	13,498,154		
Less 6 warmest months	6,096,193		
Winter months -	7,401,961		

Source: Coal and Coke Statistics (monthly) Ottawa, Dominion Bureau of Statistics

(1) Refers to manufacturing and other industrial establishments using more than 500 tons of coal per annum. Does not include public buildings, office buildings, schools, hospitals or other institutions.

III. COMPETITION FROM SUMMER GAS WILL LEAD TO HIGHER COAL PRICES AND INDIRECTLY TO HIGHER GAS PRICES.

For reasons now to be given, we anticipate that sales of "off-season dump gas" on the intended

scale will inevitably raise the price of coal, and will indirectly lead before long to higher prices of natural gas. These unfavourable results will be felt particularly in the smaller centres and in the adjacent areas now served by truck. Of forty-seven ports having one or more coal docks between Cornwall and Fort William, thirty are the site mainly of small or moderate-sized operations. Sixteen ports accounted for an approximate turnover of less than 50,000 tons in 1957, six ports for 50,000 up to 100,000 tons and eight for 100,000 to 200,000 tons (G.P. Cooper and W.J. Moroz, Jr., Canadian Mining and Metallurgical Bulletin, January 1958, pp. 25-31).

The anticipated loss of tonnage to gas is likely to result in the disappearance of a number of the coal docks in these smaller places, leaving them and the adjacent area without a single operating coal dock to assure a continuing winter supply of low-cost coal.

If water-borne shipments are not available, coal can of course be brought into an area by land. This ordinarily involves a substantial increase in freight costs, however, and gives rise to storage problems or the danger of interrupted supplies or both together. One way or another the supply of coal will of necessity become dearer in most places, and less certain everywhere, if the docks disappear.

The disappearance of the docks would follow naturally from the economics of the coal dock business. Most of the costs of operation are fixed or constant rather than variable, as the Royal Commission on Coal described in 1946 on page 364 of its Report:

> "The principal operating costs of a dock are rent, taxes, labour, insurance, depreciation on equipment, maintenance and repair and such miscellaneous expenses as power, light, tools, etcetera, and there are of course general supervision and maintenance expenses. The majority of these expenses are fixed and bear little relation to the tonnage handled. If a dock can operate for an expense of say 60 cents per ton on 130,000 tons, it is probable that this would be closer to $1.00 per ton if the tonnage should drop to 80,000 or 90,000 tons."

In the case of the smaller coal docks, which are those in question, the minimum economic shipment of water-borne coal in self-unloading vessels is also a factor. For ports on the open lake the minimum shipment is 2,500 tons and there is a further economy in using vessels of larger capacity, fully laden, where harbour conditions permit. It is true that for a number of places located at some distance from deep water (such as

Chatham and Napanee) the advantage of placing the coal some miles inland justifies the use of smaller shipments than would otherwise be economical, but even in these places the minimum lot is about 1,000 tons.

R:iz
/15

If the annual tonnage stored and moved over a dock falls to the point where it cannot support the dock's level of constant costs, the dock must either raise its charges, curtail the whole scale of the enterprise to reduce the constant costs (if that is possible), or go out of business. There are limits, moreover, to how far the contraction in scale of operations can go. There is a substantial minimum of personnel and facilities for even the smallest coal dock enterprise. Also there must be enough tonnage to justify consigning a self-unloading vessel with the minimum cargo, as just mentioned. In other words, both the dock establishments and the incoming vessels must be of substantial size and must operate at a rather high load factor, in order to be economical. All branches of energy supply are large scale operations and a fall in the load factor, in the coal dock business as in natural gas and electric power, can convert a sound enterprise into a failure.

To illustrate the effect of the constant costs inherent in a coal dock operation, an analysis has been prepared for three separate coal docks under a single management, showing the levels of cost for handling various tonnages, apart from head office and selling expenses. Details of the analyses are presented in the Appendix, Part D.

1

The final results, expressed in costs per ton for dock handling only, are as follows:

Average cost per ton handled

Annual Tonnage	Dock A $	Dock B $	Dock C $
20,000			.93
40,000		.86	.67
60,000		.67	.56
80,000		.53	
105,000	1.65		
140,000	1.32		
170,000	1.10		
210,000	.93		

From this it will be seen that a reduction to an annual load factor of about 50 per cent, as a result of business lost to off-season dumped gas, would lead to an increase of from 50 to 75 per cent in the per ton cost of handling coal over the docks.

Our estimate of the outlook in smaller places, then, is that we do not anticipate that many of the docks can continue to operate on the basis of their present handling charges if their tonnage is seriously reduced. Their constant costs are already very close to the minimum and they will be compelled either to raise their charges per ton or go out of business. We

believe that either of these outcomes, dearer coal or no coal, would be against the interests of consumers generally.

The effect on fuel costs in such areas will not be confined to higher costs for coal, for the suppliers of interruptible gas can soon secure higher gas rates if the price of coal or oil rises. In some cases we are informed that the contracts for gas even provide for an automatic increase in rates if other fuels rise in price. It follows that if the natural gas distributors succeed in driving either coal or oil to a less economic basis, gas can reap the double advantage of larger sales and higher prices. It can do so, moreover, although still remaining as the supplier of only a part-time service to industry.

We now turn to the results in the larger centres. Since there are several commercial coal docks in almost every large port, a marked reduction in annual tonnage is likely to lead to a reduction in the number and size of the remaining docks but not to their complete disappearance.

At first sight such an adjustment might seem of no consequence to consumers, provided the surviving docks were of average capacity and efficiency. Further consideration

will show, however, that even in the larger centres the dock-handling costs cannot be kept down at the present levels if most of the summer tonnage is lost and if, at the same time enough facilities are maintained for handling the heavy winter requirements. In the winter months, it will be recalled, not much gas is to be available for industry since in those months it will be sold to residential consumers at about three times the industrial price.

The following example, which is necessarily expressed in conjectural figures, will serve as an illustration. If the industrial consumption of coal in the warmest six months of the year were reduced by 60 per cent, and if in the coldest six months of the year it were reduced by 20 per cent, the combined decline over a year would amount to a little under 40 per cent. In response to this decline we would expect a contraction in dock facilities of from 35 to 45 per cent, or say 40 per cent. Such a contraction would not leave enough storage space to satisfy winter needs for coal which, in view of the seasonal character of the gas supply, is assumed to have fallen no more than 20 per cent. More specifically, a contraction in dock storage of 40 per cent accompanied by a contraction of only 20 per cent in winter consumption implies

the bringing of one-fourth of the winter coal requirement by rail, while a contraction in dock storage of 45 per cent implies bringing almost one-third by rail. It may be added that full use of dock storage capacity has been assumed in each situation mentioned.

At a first reading the foregoing analysis might seem too conjectural to carry great weight. It may be restated in broad terms as follows: if sales of "off-season dump gas" are to cut the coal market down to less than one-half during six months of the year, as Trans-Canada's forecast implies, the coal dock operators could not possibly afford to occupy the same area of land they do today unless this were made possible by higher dock charges (which under prevailing competition with other fuel it might not be prudent to impose) or by a public subsidy. And if they cannot afford to occupy the land, they cannot store the coal for winter use.

At this point we should add that some of our industrial customers place as much stress upon the certainty and all-round economy of stockpiles on the coal docks, as upon the prices of the coal supplied. Our service is <u>certain</u> because of our large stockpiles, which at the close of navigation amount to about half-a-year's

[illegible]

consumption. Also our service is economical because it saves the cost of providing space for storage, as well as the other costs of maintaining and handling a private stock of fuel.

Unfavourable results for the consumer might also be expected in the delivery end of the business. If the specialized motor trucks required for efficient delivery of industrial coal were to be idle for a considerable part of the year, they would require, when in action, a higher charge per ton of coal moved. There would also be labour problems associated with the less regular employment offered and it would undoubtedly be necessary to resort to less capacious and hence less efficient all-purpose trucks that could be diverted to the building trades in the warmer months. In this way the unfavourable impact of a lower load factor in coal delivery could be reduced, but it is certain that it could not be overcome.

All in all then, we anticipate that in the larger centres as in the small the added competition offered by interruptible and seasonal gas will have the paradoxical result of raising the prices of bituminous coal and ultimately of gas itself.

IV. EVENTUALLY THE DUMPING OF GAS SHOULD DIMINISH BUT IN THE MEANTIME MANY COAL DOCKS WILL HAVE BEEN IRREVOCABLY TURNED TO OTHER USES: If coal docks are driven out of business and if, as American experience suggests, the supply of interruptible gas rises in price after several years, coal will once more be required on a year-round basis by those who have been using boiler gas seasonally. It might be thought that resumption of year-round demand for boiler fuel would automatically lead to a restoration of dock-side coal handling on the same basis as to-day. Eventually this would probably happen, but in the meantime the dock structures may have disintegrated or the storage space may have been built upon. These conditions would greatly increase the cost of starting a new enterprise and delay or prevent the reappearance of low-cost coal supplies, the more so as there are few waterfront properties with suitable deep-water dockage alongside. Our view is that if coal docks disappear in small ports, some of the docks may <u>never</u> be re-established, thereby putting such ports at a competitive disadvantage, for all time, as a location for industry.

The cessation of coal dock service would work a hardship on large users of coal who have designed their plant on the assumption that

economical stockpiles will be maintained in the nearest harbour. These consumers, though they sometimes have a railway siding, are not always able to accommodate on their own premises the rather large private stockpiles advisable for those who depend on rail shipment of bulk orders.

Mor serious results would be felt by industrial plants established at some distance from railway tracks. Such firms have hitherto been assured of continuous and economical bulk shipments from a nearby coal dock, and this is one of the factors which has enabled them to dispense with a location on the railway. If coal docks cease to operate, it goes without saying that the gap between the railway and such plants can be bridged, and that storage places can be found, but the new arrangements will as a rule involve a considerable increase in costs per ton for freight, for storage, and in all probability for handling.

The future of the large railway coal docks, which have played an important role in Ontario's largest export industries, deserves mention at this point. The recent closing of the big C.P.R. undertaking at Britt on Georgian Bay is of course justified by the reduced rail-way coal consumption, but the consequences for

[illegible]

industry and for future industrial development merit attention.

Coal has the advantage of being a source of energy which can be held in reserve, since it can be stored in large quantities both cheaply and safely. Carrying these reserves is one of our main functions. A community which relies mainly on energy sources which cannot be held in reserve, as coal can, is highly vulnerable to interruption by accidents, natural disasters, strikes, sabotage and warfare. In the electrical industry, which is extremely vulnerable to interruption since storage is impossible, great sums have been spent to reduce interruptions from these causes by the building of elaborate interconnections between generating stations. In the case of gas, some interconnections of the same type are possible, but owing to the distance from the Canadian wells to eastern consuming centres it is plain that little or no protection can be achieved by this method. It would seem a matter of public policy to assure the storage of a large amount of natural gas in Ontario; if sufficient could be stored it would be possible to vary the amount in storage and thereby avoid wasting the gas for purposes of low priority.

V. EXCEPTIONAL CHARACTER OF THE COMPETITION FROM DUMPED GAS: We do not come here to complain

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

of ordinary competition, nor of the intensified competition ordinarily experienced from new products or processes. We experience these pressures in the ordinary course of business, and in dealing with them all that we ask of government is the freedom to meet them on even terms, especially in regard to taxation and subsidization.

Today, however, we face a competitive situation that is altogether exceptional. It is exceptional in the extent of the price reduction involved, in the irregularity of the supply of the competing product, and in the likelihood that recurring outbursts of supply of the cheapest gas will eventually diminish as more profitable outlets are found.

Underlying this situation is the fact that a new industry, which has deliberately overbuilt its plant in the interest of future economies, is making an effort to transfer its seasonal over-capacity to us. It is trying to do so, moreover, without bearing the responsibilities and risks which we assume in handling the annual peak load in fuel consumption.

We now wish to discuss the matter of dumped gas rather fully, but before doing so we should make it clear that we recognize the existence in other lines of business of various forms of price reduction, such as seasonal dis-

counts, quantity discounts and occasional mark-downs. In our own business we normally buy coal at reduced prices in the warm months, a method which incidentally enables the mines to offer steadier employment and operate more economically. Again, we ship coal to the upper lakes as return cargo in vessels which would otherwise travel empty, thereby securing lower freight rates to Fort William, the Sault and Georgian Bay points than to Toronto and Hamilton.

The closest analogy to off-season gas has been the sale of off-peak or secondary hydro-electric power, mainly for raising steam in the electric boilers of pulp and paper companies. This has taken place chiefly in the Province of Quebec, where it was considerable especially in the 1930's and immediately after the war.

Coming now to the extremely low rates for interruptible gas, it might be thought that they were merely another example of the same form of competition. We hold, however, that dumped gas is offered under circumstances substantially different from the examples just mentioned.

It cannot be argued, we hold, that the seasonal sale of industrial gas in warm months

is closely analogous to the mines' summer discount on coal. Coal is sold in the summer at only a slight discount, and we buy it not to use in a wasteful manner but to store against the time when it will have a higher value. In so doing we use the labour of men whose time might otherwise have run to waste in summer unemployment; nothing is dissipated, and a great deal is conserved.

:1z
15

As to the freight charges on coal shipped as a return cargo to the Upper Lakes, this is a permanent procedure around which the shipping companies have built their business. Nor have the railways' expectations and profits been disturbed in any way by the practice; on the contrary, the railways have probably been the largest beneficiary of it until recently, as shown by the large volume of coal business over their own docks and the subsequent coal movement by rail.

The third example, namely the sale of secondary hydro electric power for use in electric boilers, is the closest analogy to dumped gas. If the resemblance is examined carefully, however, two important differences will be found: first, that in the case of hydro power there is no consumption of an irreplaceable resource; second, that all of the resource in question (the flow of water) would necessarily continue flowing in most cases whether the power were generated or not.

In each of the three cases mentioned, we therefore hold that there is a substantial difference between normal commercial practice and the extreme price reduction now offered on a qualified basis in the case of industrial gas.

VI. UNUSED CAPACITY AND HARMFUL COMPETITION: THE EXPERIENCE OF UNITED STATES RAILROADS.

In many respects the interruptible rates

now quoted for natural gas recall the practices which developed among United States railroads in the 1880's. Writing of events of that time, an American authority, Professor Martin G. Glaeser, of the University of Wisconsin, in a volume entitled Public Utilities in American Capitalism (New York, MacMillan, 1957), explains at page 66 that the Windom Committee of the United States Senate, appointed in 1874, complained of excessive railway rates. On the other hand, he says that the Cullom committee of 1886 "instead of complaining about high rates . . . contended that the 'paramount evil' in the conduct of the transportation system, 'unjust discriminations between persons, places, commodities, and particular descriptions of traffic'. Improvements in railway facilities, the growth of traffic, and particularly rate wars had in the time between the two reports changed entirely the incidence of the railway problem. Discrimination, as a new phase of the railroad problem, was the direct result of excessive railway competition . . . Place discriminations arose out of the fact that railroads regarded themselves adjuncts to the markets which they entered, and their rates were consequently adjusted to favour the market which particular railroads desired to build up. Higher rates were also in effect upon local traffic, not subject to competition, as

compared with rates applying on traffic moving between junction points where competitive influences were felt. Another type of discrimination arose between large and small shippers because the large shipper was able to secure a rebate or other preferential treatment on account of the larger quantity of traffic which he could offer."

The problem of excessive rate cutting among railroads was also examined, more than thirty years ago, by Professor Eliot Jones, Professor of Economics at Leland Standford University, in his work entitled Principles of Railroad Transportation (New York, MacMillan, 1924) and despite the length of his statement we take the liberty of quoting it rather fully. At page 91, he writes:

"It is a generally accepted view that competition among railroads, unless restrained in some manner, tends to become ruinous, that is, fails to establish a normal level of rate sufficiently remunerative to attract the additional investments of capital that recurrently become necessary."

In describing the forces that lead to this situation he continues at pages 92-93:

"The large investment in fixed plant (roadway, structures, terminals, etc.) gives rise to large fixed (or constant) expenses; that is, expenses that do not vary in proportion to changes in the volume of traffic. Since the expenses do

not increase in the same ratio as the traffic, a railroad is naturally desirous of securing additional traffic, in order to profit by the law of increasing returns. If it can secure additional traffic without making concessions in rates, so much the better; but the point to note is that the railroad can afford to take additional traffic at any rate which exceeds the extra cost incurred on account of the increased business. The reason that the rate on this additional traffic need not cover its proportionate share of the fixed expenses is that these expenses (being fixed) will continue whether or no the added traffic be taken. It suffices, therefore, if the rate is high enough to make some contribution, however slight, to the fixed expenses.

"The added traffic thus secured may be new traffic or it may be traffic that had been moving over another railroad line. If the former, its carriage represents a net gain; if the latter, it represents a diversion of business not likely to be submitted to by the other road. For it is quite as true of the second road as of the first that its expenses are largely fixed (constant), and therefore it cannot tamely submit to such a loss of its business. If it meets the rate of its competitor, the particular item of traffic affected will fail to make its propor-

tionate contribution to the fixed expenses, but it is better that the competitive traffic make some contribution to these expenses than none. Accordingly, the second road will usually meet the rate or even cut it still further, thus leading in all probability to another cut by the original trespasser until finally the rate may fall so low that it barely covers the extra cost occasioned by the movement of the competitive traffic. Below this point it would not ordinarily be to the interest of either road to go. Yet at this point, it is generally conceded, the rate on all competitive traffic may remain for considerable periods of time. If, then, there are present the conditions favourable to such a struggle, that is, transportation facilities in excess of the traffic offered at rates remunerative to the railroad, and a large percentage of traffic that may move by two or more roads instead of being local to any one road, rates may for some periods of time be ruinous to both roads."

To an increasing extent, we are advised, theorists working in the field are swinging away from the view that out-of-pocket costs for extra business provide a sound basis for pricing. The tendency is now to define marginal or out-of-pocket costs rather broadly, so as not to omit the indirect costs which sooner or later become involved

if there is a substantial amount of business at cut rates.

In consequence, true marginal costs prove to be closer to average costs than was formerly supposed. The question is examined by Professor R. K. Davidson, of Purdue University, in a more recent context which touches gas, in his Price Discrimination in Selling Gas and Electricity (Baltimore, Johns Hopkins Press, 1955). He writes, at page 195:

"It is a widely accepted belief that electric and gas utilities are prime examples of industries that operate in the place of decreasing long-run average costs . . . This is probably no longer the situation, except for small, non-interconnected utilities. Under present conditions with widespread interconnections between utilities and the multiplicity of production units, it seems likely that there is little or no difference between long-run marginal and average costs for most electric utilities; operation within the phase of decreasing long-run average costs may still exist for some electric and gas utilities with respect to decreasing facilities, but the differences would appear to be small while some gas companies are probably operating in the phase of increasing average cost, with respect to distribution capacity."

General action to restrain rate cutting

has developed slowly. We are informed that in the United States, because it had always been assumed that carriers were entitled to a reasonable return, the Courts and Congress did not find it necessary to spell out the need for a fair return and a reasonable general level of rates, until the regulation of individual rates had gone on for many years.

Similarly we are informed that in Canada individual rates were changed and regional rates altered several years before there were general or overall rate cases. The general railway rate cases came either in the period 1918-22 (or at most 1912-27) and 1948-to-date. In the remaining years since 1904 the Board has dealt solely with individual rate adjustments. The telephone cases were in 1912, 1920-21, 1927, and 1950 to date.

We have dealt at length with the railroads because they offer the nearest example of the type of competition now encountered from gas, that is to say rates offered as a result of unused capacity and based on marginal rather than total costs. (By marginal cost is meant an increment of genuinely variable cost associated with a limited increase in volume, expressed on a per unit basis.)

At the same time we recognize that the competition between gas and coal is not in all respects the same as competition between one railroad company and another. In the case of the

American railroads service continued to be offered by the competing carriers, though at ruinously low rates which were eventually corrected by government regulation. In the case of today's competition between coal and gas, on the other hand, events may be expected to follow a somewhat different course. There is no reason to believe, in the case of industrial coal, that marginal-cost pricing, on the part of docks or dealers in response to competition from gas, can enable marked reductions in coal prices. Such reductions could be made only with the aid of a government subsidy or by establishing a complete monopoly embracing both coal and oil.

In the nature of things the marginal costs of acquiring and delivering coal rarely fall much below average cost. Whereas some part of a flow of hydro electricity or natural gas may be thought of, at least over short periods, as in the nature of a costless surplus, spilling out almost gratis as it were from the company's own lines, every ton of delivered coal in effect carries with it an invoice showing that most of the value of each ton actually represents cash payments made to others. These payments serve to defray

(a) the cost per ton at the mine

(b) the inward freight charges per ton

(c) the out-of-pocket costs of local

handling, storage and delivery.

The only components of cost not included in these items are the constant costs of the dock operators and/or retailers. While these constant costs are the principal ones at the level of dock handling, they form only a small part (between 5 and 10 per cent) of the final delivered cost of coal.

Thus, despite coal's low average cost per B.t.u., it cannot be brought into consuming areas at dump prices, there being no segment of virtually costless supply which coal dealers can offer to a selected group of consumers at cut prices in order to compete with dumped gas. Owing to competition, moreover, there is no segment of the market in which coal can be sold at substantially above average cost to yield an offsetting profit.

Since, then, the coal trade cannot defend its position effectively by resorting to marginal-cost pricing, the result of large-scale seasonal dumping of gas is likely to be either no coal or dearer coal, other things being the same, and to the extent that dock operations became inadequate, a less secure fuel supply in the winter. The consequences for the community are of the same broad nature as in the examples cited from railroads and public utilities, despite differences in the details. We hold that these

consequences are of sufficient importance to justify the attention of a suitable public authority.

VII. WASTEFUL USE OF A SCARCE NATURAL RESOURCE.

On the question of natural resources, Western Canada's supplies of natural gas, though enormous, are small when compared with the pace at which gas is being used on this continent. We understand that the present Canadian gas reserves are equal to between two and three years' United States consumption. While alarmists' predictions of early exhaustion have time and again been disproved by the event, a long view of affairs must surely lead us to deplore not only the flaring of gas but also the massive use of gas for purposes equally well served by more abundant and, on the average, cheaper fuels. The energy locked in coal reserves is almost infinitely more abundant, and both coal and oil are more transportable and more readily stored. It may be true that the abundant oil of Arabia (if not seized by a hostile power) could relieve the shortages of this continent for generations or centuries, but it is impossible to transport the natural gas of Arabia or any other continent to North America except as a liquid, and at heavy cost. Since this continent cannot draw on others for economieal

supplies of gas, as its own become scarce, there is more reason to conserve gas than oil.

The advantages of gas for special uses are recognized by everyone, and for these uses it is clear that many consumers are prepared to pay a somewhat higher price for gas, per B.t.u., than for other fuel. These may be called the uses of high civilian priority, and the degree of priority is indicated by the premium which gas can command over other fuels.

1
PM/jp
D
15/7

We are aware that measures to conserve gas, in the interests of prolonging its supply for uses of high civilian priority, raise difficult problems especially as to the probable length of life of the reserves and the apprcpriate rate of interest to apply in reducing the money value of future use of gas to present value. We do not presume to enter this important but rather conjectural field. We are also aware that there is room for disagreement on the exact point at which the sale of gas for purposes of low civilian priority should be restricted, and on whether the restriction should be applied to end-use or to price, or to both for that matter. We hold, however, that the burning of immense quanitities of gas under steam boilers is a use of such low priority, and will exhaust such a large part of the nation's reserves, that it places this use of gas definitely outside the permissible area from the standpoint of national benefit, except where it can be shown that the only alternative is for the gas to be wholly wasted. Almost anything that burns briskly can boil water at a price, and coal does so remarkably cheaply, especially in modern installations. The burning of gas for boiler fuel should therefore be the first and the main use to be discouraged.

In this connection we understand that some two-thirds of Trans-Canada's supply of gas is not associated with oil, and hence need not be regarded as doomed to be not used now. (Hearings, February 24, 1958, page 2293.)

Important discoveries of gas are still being made in Western Canada and an impression seems to be gaining ground that the supplies are unlimited. We understand, however, that while Western Canada's ultimate reserves are very large, they are confined to a geological area which is relatively small compared with the United States fields, and hence are correspondingly limited as to both the recoverable quantity of gas and the annual rate at which it can be economically withdrawn.

In the nature of things the supply of gas is prone to get out of step with the market. The supply becomes available in advance of demand because gas is often found as an incident in the search for oil. In this situation the self-regulating mechanism of the market-place cannot be relied upon to impose a sensitive check upon gas supply in the event of a glut, and thereby conserve the resource. This being so, deliberate measures for conservation seem necessary. If such measures are not adopted an irreplaceable fuel resource, having unique

properties for certain uses, will be consumed far more rapidly than would seem desirable from the standpoint of national interest.

There appears to be a conflict between the economics of distribution by long-distance pipeline and the economics of conservation. It is true that without a pipeline the gas cannot be used, and a fraction of it will run to waste. With a pipeline, however, the gas tends to be thrown on the market more quickly than its relatively limited supply justifies, in order to add something (probably little) to the revenues of the line.

VIII. SUMMARY OF PARTS I - VII: Before offering our recommendations we wish to summarize the submission thus far, as follows:

1. If Trans-Canada's forecasts prove correct, natural gas sold for industrial purposes will displace between one-quarter and one-half of the combined industrial consumption of coal and fuel oil.

2. The loss of tonnage to gas is expected to occur mainly in the warm months. In the winter months, on the other hand, dumped gas will not be available, hence the former peak in the winter demand for industrial coal would remain. The docks' annual load factor would fall and average handling costs per ton would rise.

3. As the rise in average costs would be appreciable, it would lead, in one way or another to either (a) higher selling prices for coal from the docks, or (b) the complete cessation of coal dock operations.

4. Higher selling prices for coal would be followed by higher rates for industrial gas, and industrial coal customers using summer gas for boiler fuel would before long find that under the new arrangements their combined annual fuel costs were either the same or higher.

5. Other large customers, who use boiler fuel mainly for space heating in winter months, will not be in a position to avail themselves of much dumped gas. They would find, owing to the unused capacity elsewhere caused by gas, that their outlay for other fuel had risen. Thus more competition would lead to higher rather than lower prices, a well-known paradox in the field of public utilities.

6. If the supply of dumped gas subsequently diminishes, more industrial coal will be needed to take its place, especially in the summer. In the meantime, however, some of the very limited dock space suitable for coal storage may have been converted irrevocably to other uses, delaying or

preventing a resumption of assured supplies of low-cost coal.

7. Dumped gas thus gives rise to a most unusual competitive situation, one which is in a class by itself owing to its periodicity, its extent, and the likelihood that it will eventually subside as gas becomes relatively scarcer. The situation recalls an early period of ruinous competition among American railroads.

8. In American railroads, competition arising from unused capacity and based on marginal-cost pricing led to an impasse rather than a workable equilibrium. It necessitated the intervention of a rate-making authority in the interests of solvency and continuity of service. Competition between gas and coal under similar conditions of unused capacity is not however identical with that between railroads because of the different relations between the respective marginal and average costs. Industrial coal cannot be sold continually at dump prices, as much gas can, nor can it be sold at monopolistically enhanced prices to householders.

9. Natural gas is comparatively scarce, when compared with its present rate of consumption in North America, and is much scarcer than oil.

The resources of coal are by comparison almost unlimited, and they yield heat at a very low average cost.

10. Neither the mechanism of the competitive market nor the policy of pipeline companies with unused capacity can be counted on to conserve gas for uses of high priority. Public intervention seems the only effective method of conservation.

IX. RECOMMENDATIONS: Our principal recommendations refer to (a) the allocation of costs underlying the rate structure for gas, (b) rates for industrial gas and the question of undue preference to large consumers (c) restriction of the use of gas for certain purposes of low priority, (d) the question of a National Energy Board, (e) the procedure of regulatory boards generally, and (f) drawbacks against the import duty on coal.

(a) We understand from the submission of Trans-Canada that its rates were designed on the basis of a cost-allocation method used by the Federal Power Commission of the United States. We trust that you will see fit to inquire into the details of the Power Commission's method and that employed by Trans-Canada, with a view to ensuring that the resulting rate structure recovers a

reasonable proportion of the cost of serving the various classes of customers and that it does so without unjust discrimination or undue preference.

(b) At present both Trans-Canada and the local distributing companies seek to justify their interlocking structure of dump rates on the ground that such rates are necessary for securing the traffic. We suggest that in weighing this argument the considerations outlined in The Transport Act may prove helpful. Section 26 of the Transport Act provides that the Board of Transport Commissioners, when deciding whether a proposed lower rate does or does not amount to an undue preference or an unjust discrimination,

> "may consider whether such lower toll, or difference in treatment, is necessary for the purpose of securing, in the interests of the public, the traffic in respect of which it is made, and whether such object cannot be attained without unduly reducing the higher tolls."

As we understand this section, when taken along with section 23, it enables the Board to allow or disallow a discriminatory reduction in the light of a broad consideration of the public interest, and in the light of

alternative policies for enhancing earning power.

If similar scope were given to an authority empowered to deal with gas, our position could be stated as follows. We hold that certain of the reduced rates for industrial gas amount to an undue preference or unjust discrimination, and should be disallowed, on the grounds

(1) That the resulting disturbance to the inflow and winter stockpiling of water-borne coal, the consequent increase in unit costs, and the associated irregularity in gas supply, would be against the public interest, and

(2) that the objective of maintaining the summer traffic in gas could be attained in Ontario, to a greater degree than now contemplated, by the delivery of surplus summer gas to underground storage for use during the winter.

This recommendation refers not only to regulation of Trans-Canada's descending rate scale, but, with appropriate changes, to the rates of local distributing companies which in Quebec are regulated by the Provincial Electricity Board and in Ontario by the Ontario Fuel Board.

(c) We suggest that consideration also be given

to restricting or prohibiting the use of natural gas as industrial boiler fuel. We understand that most of the gas sold for this purpose adds a relatively small sum per mcf. to the revenues of the companies, while it is obvious that it burns up vast quantities of a comparatively scarce natural resource which could before long be put to much more valuable uses. We do not feel in a position to suggest the exact form of control, but it is evident that several forms are possible such as (1) a minimum price, already referred to in broader terms in (b) above, (2) prohibition of certain end-uses, (3) quotas for certain end-uses, and (4) restriction of the total amount or proportion of gas offered on other than a firm twelve-month basis. The last of these implies whatever complementary public measures might be needed for hastening the increase of summer storage. In connection with the above proposals we suggest that the Government consider modifying, in the case of the Northern Ontario Crown Pipeline Corporation, certain minor terms of the contract which add to the existing incentive to press the sale of gas for inferior uses.

(d) From the Commission's terms of reference, part (c), it appears that the Government has already

decided to establish a National Energy Board and the Commission is asked to confine its recommendations to the Board's jurisdiction, administration and procedure. In view of the wide scope of the final clause in the terms of reference, however, we beg to question whether a National Energy Board would provide the most suitable form of organization for dealing with energy problems. We are disturbed by the extent of the power often exercised by semi-autonomous regulatory bodies, and are impressed by the need for publicity as to their actions, for appeal from their decisions, and for occasional review of their influence on the economic system. We favour legislation which would bring the public aspects of the energy industries under the direct scope of a single government department.

(e) We also wish to add a recommendation on the conduct of hearings before the public reulatory bodies, whether national or provincial. We believe that in the public interest the hearings before such bodies should be open, that their findings should be a matter of public record, and that all interested parties should be given ample and duly publicized opportunity to submit their views in advance of each rate authorization.

(f) Finally we wish to make a suggestion concerning the drawbacks allowed against the import duty on coal, not discussed above. Drawbacks are now allowed in the case of coal used for making both salt and coke (the latter in conjunction with free entry of foreign coke) while exemption from duty is allowed on bunker coal used by ships moving in international waters. We propose that the drawbacks against duty be extended to coal used in the production of goods for export or, at the least, to coal used by the rather small number of major export industries.

In conclusion, we will be glad to give additional information or explanations on matters within our scope.

All of which is respectfully submitted.

THE CHAIRMAN: I think this would be a good time to break for 10 minutes.

--- A short recess.

APPENDIX - PART A: The following is a list of the principal submissions to the Royal Commission on Coal, 1945, bearing on the supply of bituminous coal in the Great Lakes area. While wartime problems naturally received much attention in 1945, the organization, technology and cost of freight and handling were also described, especially

in Exhibits 229 and 231, passages from which are reproduced in Part B below.

I. SUBMISSIONS ON THE IMPORT, DISTRIBUTION AND USE OF COAL, 1945.

Number of Exhibit	By Whom Submitted	Witness	Page in Hearings
175	Hamilton By-Product Coke Ovens, Ltd.	H. G. Henry	3078-3093
176	Fort William Dock Co.	S. R. Freed	3094-3116
177	Industrial Consumers of Coal in Hamilton	R. W. Angus	3116-3132
179	Owen Sound Board of Trade	F. W. Smith	3146-3165
180	James Murphy Coal Co., Fort William	F. C. Murphy	3166-3179
181	Lakehead Fuel Dealers	F. C. Murphy	3180-3186
183	Fuel Protective Association of Hamilton	-	3193-3196
184	E.A. Allcut, University of Toronto "A Fuel Policy for Canada"	E. A. Allcut	3197-3210
185	Toronto Retail Dealers Association	W. A. Gunn	3211-3216
194	Rochester and Pittsburgh Coal Co.(Canada) Ltd. (re duty on bunker coal at Montreal)	N. Walsh	3401-3405
229	Toronto Coal Exchange	M.J. Patton	4567-4637
231	Nineteen Canadian Importers and Distributors of Bituminous Coal	H. J. Stuart D. C. MacGregor	4715-4794
232	Montreal Coke and Manufacturing Co.	D. G. Munroe	4794-4808
248	The Coal Control (Ottawa)	C. L. O'Brian E. J. Brunning	4879-4988
260	Dominion Fuel Board (Activities of, Vol.1)	F. G. Neate	5116-5196
261	Dominion Fuel Board (Activities of, Vol. 2)	F. G. Neate	5197-5345

APPENDIX - PART A. II. SUBMISSIONS ON THE COAL MINES AND THE TRANSPORTATION OF COAL BY RAIL TO THE SHORES OF THE GREAT LAKES: A SELECTED LIST:

Number of Exhibit	By Whom Submitted	Witness	Page in Hearings
213	National Coal Association	H. A. Glover	4237-4256
214	Consolidation Coal Co. and others	A. B. McElvany	4256-4313
215	United States Coal Producing District No. 8	R. E. Howe	4313-4335
225	Twenty-seven Coal Carrying Railroads of the United States	R. S. Kern	4377-4404
256	Illinois Coal Traffic Bureau	C. W. Stadell	5079-5100
258	Group of United States Railway Companies	R. G. Raasch	5102-5111
259	Kentucky Coal Agency, Inc.	H. C. Moore	5111-5116

APPENDIX - PART B - (1), NOTES ON THE DEVELOPMENT OF THE WATER-BORNE COAL TRADE IN THE TORONTO AREA, AS INFLUENCED BY THE WELLAND SHIP CANAL AND AUTOMOTIVE TRANSPORT: (Reproduced from the Submission of the Toronto Coal Exchange to the Royal Commission on Coal, 1945, pp.31-36.) Also in hearings (1945) pp. 4600-4606.

(Not reproduced herein: See p.28 of original brief.

APPENDIX - PART B - (2), A DESCRIPTION OF THE IMPORTING AND WHOLESALING OF UNITED STATES BITUMINOUS COAL IN CANADA: (Prepared for the Royal Commission on Coal,1945, by the Canadian Importers and Distributors of Bituminous Coal, and

submitted by them as Appendix A. Also in hearings (1945) pp. 4752-4760).

(Not reproduced herein: See p. 33 of original brief)

APPENDIX - PART C

MEMBERS OF THE CANADIAN COMMERCIAL COAL DOCK OPERATORS ASSOCIATION

C. L. Amos Coal Company (Canada) Limited	Montreal, Quebec
S. Anglin Company Limited	Kingston, Ontario
Canada Coal Limited	Toronto, Ontario
Century Coal Limited	Toronto, Ontario
Confederation Coal & Coke Ltd	Windsor, Ontario
Crawford Coal & Fuel Co.	Kingston, Ontario
Dalton Fuels Limited	Sarnia, Ontario
The Davis Smith Malone Co. Limited	Owen Sound, Ontario
Empire-Hanna Coal Division, M.A. Hanna Company	Toronto, Ontario
Fort William Coal Dock Co. Ltd	Fort William, Ontario
Halliday Fuels Limited	Toronto, Ontario
Imperialle Fuels Ltd.	London, Ontario
Industrial Docks & Supplies Limited	Thorold, Ontario
Kingsville Coal & Dock Co.	Kingsville, Ontario
The Lake Erie Coal Co.Ltd	Walkerville, Ontario
Lyons Fuel, Hardware & Supply Ltd.	Sault Ste. Marie,Ont.
McLaughlin Coal & Supplies Limited	Oshawa, Ontario
McMaster Fuels Ltd.	Sault Ste.Marie,Ont.
James Murphy Coal Company	Fort William, Ontario
Myers Coal Company Limited	Hamilton, Ontario
B. W. Powers & Son	Trenton, Ontario

W. B. Reynolds Coal Co. Limited	Brockville, Ontario
Rochester & Pittsburgh Coal Co. (Canada) Limited	Toronto, Ontario
Scotch Anthracite Coal Co. Limited	Montreal, Quebec
Jas. Sowards Coal Co. Ltd	Kingston, Ontario
Swift Coal Company	Kingston, Ontario
Toronto Fuels Limited	Toronto, Ontario
The Valley Camp Coal Co. of Canada Ltd.	Toronto, Ontario
Weaver Coal Company	Toronto, Ontario

APPENDIX - PART D

Details of the coal dock costs for handling various tonnages, the results of which are summarized in part III of the submission, are presented in the three following tables for Docks A, B and C.

As the tonnages and rental costs in the tables suggest, Dock A is in a large city, while Docks B and C are in comparatively small places. Docks A and B are rented, the former on a long lease, and Dock C is owned.

All three docks are operated by the same company. The selling and administrative expenses of the head office have not been included, owing to differences between one company and another in the method of allocating between docks, and in the allocation as between dock and non-dock (i.e. all-rail) tonnage.

The cases in question show the influence of constant costs but they do not purport to be representative of other docks of similar size.

APPENDIX - PART D

DOCK "A"

Forecast of Handling Costs Predicated on Various Annual Movements of 210,000 tons Down to 105,000 tons

	Estimated Annual Tonnage				
	210,000	170,000	140,000	105,000	
Net Profit	$ 10,000	$ 8,100	$ 6,600	$ 5,000	x
Operating Expenses:					
Salaries & Wages	71,000	67,000	67,000	63,000	
Supplies & Utilities	16,000	14,000	12,000	10,000	
Maintenance & Repairs	17,000	16,000	15,000	12,000	
General Expense	2,300	2,000	2,000	1,600	
Insc.,Taxes & Rent	60,000	60,000	60,000	60,000	xx
Depreciation	15,000	15,000	15,000	13,000	
General & Admin. Expense	15,000	14,000	14,000	14,000	
Totals	$196,300	$188,000	$185,000	$173,600	
Per Ton Handling	$ .93	$1.10	$1.32	$1.65	

It will be noted handling costs will increase from 93 cents per ton on an annual movement of 210,000 tons to $1.65 on a movement of 105,000 tons.

xx - Due to a 10-year lease arrangement it would not be possible to drastically reduce rent to coincide with shrinking tonnage movement.

x - The decrease in net profit, $10,000 to $5,000 (210,000 tons - 105,000 tons) is based on maintaining the same rate of profit per ton, in this case 4.76 cents.

APPENDIX - PART D

DOCK "B"

Forecast of Handling Costs Preidcated on Annual Movements of 80,000 tons Down to 40,000 tons

	Estimated Annual Tonnage		
	80,000	60,000	40,000
Net Profit	$ 6,000	$ 4,500	$ 3,000
Operating Expenses:			
Salaries & Wages	21,000	21,000	17,000
Supplies & Utilities	8,000	7,000	6,000
Maintenance & Repairs	5,400	4,900	4,400
General Expense	300	300	300
Insc.,Taxes & Rent	1,400	1,400	1,400
Depreciation	3,400	2,900	2,400
General & Administrative Expense	2,900	2,900	2,900
Total	$42,400	$40,400	$34,400
Per Ton Handling	$ .53	$ .67	$ .86

DOCK "C"

Forecast of Handling Costs Predicated on Annual Movements of 60,000 tons Down to 20,000 Tons

	Estimated Annual Tonnage		
	60,000	40,000	20,000
Net Profit	$ 6,000	$ 4,000	$ 2,000
Operating Expenses:			
Moving & weighing	$ 2,850	$ 1,900	$ 950
Coal Analysis	200	150	100
Insurance	225	150	75
Taxes	480	480	480
Handling x	29,750	24,000	17,000
Totals	$33,505	$26,680	$18,605
Per Ton Handling	$ .56	$ .67	$ .93

X - Includes: Dock Wages and Salaries
Proportion of applicable Dock Office Salaries
Maintenance and repairs of Loader Equipment
Depreciation

(Page 7642 follows)

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

Mr. Culham, your submission, if I may say so with respect, tells us what you envisage the situation is going to be because of the advent of natural gas in large quantities in Central Canada; but when you have told us that, I am a little puzzled as to what you anticipate this Commission, in the terms of reference, can regulate that in any way and alleviate the situation.

Now, let me explain what I mean. You don't anticipate the removal of natural gas from the market; what you are suggesting is the regulation of it. Is it fair, in your opinion, to regulate one source of energy and leave another source unregulated?

MR. CULHAM: Yes.

MR. PATTILLO: So that you think that natural gas should be completely regulated but that coal should remain unregulated.

MR. CULHAM: Mr. Pattillo, I would not say that we feel thatgas should be completely regulated.

MR. PATTILLO: To what extent do you say it should be regulated?

MR. CULHAM: Mainly, I think, that we take the position that the government should give

very serious consideration to the wisdom of using gas for boiler fuel from a strictly conservation point of view, in that it has properties peculiar to itself that it is an irreplaceable natural resource. Secondly, we feel that regulation is required to protect the public interest in the matter of lowest rates, rates that do not carry their share of the burden.

Now, you have had very many apt, wise men who are well-qualified in the studies as to the basis of these rates; we are not. But we do think that regulation is needed to make sure that the home consumer or the superior use does not carry more than that fair share of the burden.

MR. PATTILLO: In effect, are you not saying: we think the end use of gas should be controlled so that it is not in a position to compete with coal?

MR. CULHAM: I would say not, no, sir. We face many areas of competition, and readily accept them in the recognition of glass, ceramic, metallurgical uses. We think in these special fields we have to recognize the special advantages that gas has.

No, I don't think we have prepared our submission on the basis that, here is a form of competition that we would like to see eliminated.

MR. PATTILLO: That is exactly what I

want to get at. A moment ago I thought you were saying that the end use for boilers should be completely discouraged and not permitted.

MR. CULHAM: No, I don't think completely, Mr. Pattillo.

MR. PATTILLO: Then to what extent do you say it should be regulated?

MR. CULHAM: It is my personal opinion, and I think I am pretty well expressing the feeling of our entire group, that if gas is to be used for boiler fuel use the gas people and the people authorizing that use should be assured that the gas industry intends to care for that market, let us say, indefinitely, rather than for a short three or four-year period, rather than build a market that is desirable to it; in other words, if it should serve a market, a boiler fuel market, or if it was proved that they could do so on a permanent basis. It is the temporary movement into the boiler fuel market that we feel should be discouraged.

MR. PATTILLO: Are you not saying that gas distributors will come in here and undercut coal to acquire this market to build up the load factor; having acquired it to serve its purpose, it will no longer keep it?

MR. CULHAM: Correct.

MR. PATTILLO: Isn't the answer to that from the coal industry that you cut to meet that

competition and continue to hold the market that you now have?

MR. CULHAM: That would be an answer, if we could do it sufficiently. But we feel that gas rates, generally speaking, for gas to be sold for boiler fuel use are dictated and established by the cost of coal or oil or whatever fuel is being used in a particular plant. In other words, they will sell it in general at whatever price is necessary.

MR. PATTILLO: That gets right down again to the problem, as I see it, that you want the coal business to determine itself what it wants to sell its fuel for, on the principle that it knows what it has to charge, but you don't want the gas industry to have the same approach. I mean you people operate in this fashion, do you not, that you determine whether you are prepared to cut to hold the business or whether it is not economic for you to do so and you let the business go? That is the way you operate, isn't it?

MR. CULHAM: Yes, because we do not have -- and perhaps I should not use the word "monopoly" -- of another section of the market, that we can charge the burden onto another section of the market. We have no other place where we can put the money. If we could do so we would probably do it, and thus easily cope with the situation.

MR. PATTILLO: Wherein does gas compete with coal; where does gas have this monopoly?

MR. CULHAM: It has the monopoly in the sense that, so far as I know, there is no area where you can buy gas and have a choice of companies. If you have a gas burner, I believe there is only one gas company you can buy gas from.

MR. PATTILLO: It is true that there is only one company from whom you can buy coal, but there isn't any variance in coal of any consequence.

MR. CULHAM: Yes, sir.

MR. PATTILLO: Things have changed, haven't they?

MR. CULHAM: No, sir. We are speaking here, of course, of industrial coal. There will be areas where there is anthracite coal -- that may be -- although I can't say it is the rule. I can tell you of many specific places where even such a commodity, anthracite, is sold at different prices.

MR. PATTILLO: Where there is competition.

MR. CULHAM: There are, of course, great opportunities, and much success could be derived there, but most of the things that could achieve that purpose are contrary to law.

MR. PATTILLO: Now, how do you consider that the Federal Government would have jurisdiction to control the end use that is made of gas within a particular provincial area?

MR. CULHAM: Getting to the point now where I realize that perhaps we should have had counsel -- I do not pretend to understand how the Dominion Government would reach that end.

I don't even say that the Dominion Government should strive to get to that point. As far as I am concerned I care not whether it is a provincial body or a federal body. We are given the opportuntiy to come here and express the effect of this gas, which is our interpretation on our business, feeling that as a matter of public record we can state the problem as we see it knowing full well that perhaps there are two widely divergent opinions as to the effect.

MR. PATTILLO: Has it not been your experience, Mr. Culham, that the market, particularly in the Ontario market for coal, has been steadily increasing for years?

MR. CULHAM: No, sir.

MR. PATTILLO: Has not?

MR. CULHAM: No, sir.

MR. PATTILLO: Well, you refer in your brief to the increase between 1954 and 1956?

MR. CULHAM: Yes, sir.

MR. PATTILLO: That increase did not follow a pattern since the end of the last war?

MR. CULHAM: It may have. I am speaking more of the situation in 1956, 1957, 1958, 1959 if you will. The importations of bituminous coal from the United States into Canada, which are not the only facts that are available, were 18,400,000 tons last year, having dropped from something I

think just over 20 million the previous year.

This year, now here I have to make a guess, but it certainly won't be anymore than 15 million and I think more like 14 million. So you will see in two years it has dropped from something around 20 million tons to around 14 million tons of American bituminous coal.

MR. PATTILLO: Don't you think that in part that is due to the temporary recession that business has had?

MR. CULHAM: Yes, undoubtedly.

MR. PATTILLO: Have you not in your estimates as to the future considered that the energy requirements of the Province of Ontario are going to expand, and expand greatly in the next ten years?

MR. CULHAM: Yes, sir.

MR. PATTILLO: Well, when you have your present dock facilities built up to a certain load, if you have an expansion in energy requirements the coal share in the expansion is cut down from what it has been so that perhaps you have a levelling off of the quantities that you bring in. Is there anything different? Is there any serious detriment to coal?

MR. CULHAM: Is there anything different--

MR. PATTILLO: Yes? Supposing if you did not have natural gas - -

MR. CULHAM: There would be, but in the example you have drawn there would not be. That is not in our opinion what is going to happen.

MR. PATTILLO: What I am suggesting is this: that if the energy requirements of Ontario keep increasing at the rate they are increasing, and if the Hydro possibilities had been fully developed, if natural gas did not come into the picture coal would be the beneficiary of that expansion and you would have to increase your present facilities, wouldn't you?

MR. CULHAM: You are speaking of Hydro?

MR. PATTILLO: No, I am speaking of energy requirements of the province if Hydro has now been developed in Ontario, all the possibilities have been developed and if you get an expansion and you did not have natural gas, coal would be the beneficiary of the expansion, wouldn't it?

MR. CULHAM: Mr. Pattillo, you are speaking of Hydro?

MR. PATTILLO: Yes.

MR. CULHAM: For the production of electricity in the Province of Ontario?

MR. PATTILLO: Yes?

MR. CULHAM: They do not affect our problem at all.

THE CHAIRMAN: I do not think that is what counsel is getting at. I think counsel is

using the word "Hydro", as I understood him as synonymous with water.

MR. CULHAM: Oh, I beg your pardon. I was thinking of the Hydro-Electric. Excuse me, Mr. Pattillo. I would have to say yes and no to that. The growth in the use of coal is expected to be in the field of coal required for the generation of electricity. We understand that the Ontario Hydro will have to go to thermal power for their additional requirements beyond 1962. That coal does not go over the docks of our member companies. The further market that is certain to expand very, very materially is that of steel and coke-making, and the allied things of metallurgy. That, again, does not accrue any benefit to the commercial dock operator that is shipping in direct cargo quantities. Now relating this in a little different context, we are speaking here now of commercial coal dock operators, not of coal distributors. The coal distributors' problem, let us say a large company representing many large coal producers, their volume may stay up pretty well but the great problem as we have tried to illustrate, and it is really quite difficult to do, is with the dock operator, let us say, in a community like Kingsville, Ontario, where there are no really large industries; greenhouses and apartments and theatres, perhaps small factories, canning plants

and that sort of thing, and the gas people come in and sell them interruptible gas. The poor fellow is maybe right down to the nub anyway because he has lost a great deal of his household business to oil, I would say, and now is losing more and more of what was the most lucrative market that he had so he has had to fall back to perhaps 75 or 80 per cent of what he, at one time, had. Now, if he loses half of what he has, he just cannot exist, and that one dock in that one community, we take the stand will very likely have to be closed.

We further take the position that these properties being as rare as they are, relatively rare, that they probably will be put to some other use; established grain elevators or warehouse or something of that kind. Now, if five or ten or fifteen years hence the gas people, or three years hence, the gas people are no longer interested in this boiler fuel coal they immediately notify the people and the people look in the phone book for the Kingsville Coal and Dock Company, and there is no company and if anyone wants to form a company there, there is no dock on which to store coal. The alternative then is to bring it in by rail. Now, the difficulties of that and the financial consequences of that are very serious.

MR. PATTILLO: Serious to that dock operator.

MR. CULHAM: Serious to that greenhouse operator.

MR. PATTILLO: Serious to the greenhouse operator if you assume that the economy of today is going to be the economy of the day when he has to call up and look for coal.

MR. CULHAM: Assuming that water-borne coal is still a cheaper fuel than rail shipments. Assuming that, yes.

MR. PATTILLO: But really aren't you, now that I understand exactly what you are saying, you are saying at the present time there are several methods of distributing coal?

MR. CULHAM: That is right.

MR. PATTILLO: One of the methods is through the dock operator who really is a warehouse man distributor?

MR. CULHAM: Yes, sir.

MR. PATTILLO: If you bring natural gas in here, the future energy requirements may increase; coal in the aggregate may still continue to have just as big an opportunity but one of the methods of distributing may go out of existence?

MR. CULHAM: At least partially.

MR. PATTILLO: Partially?

MR. CULHAM: Yes, sir.

MR. PATTILLO: Well, if that is what we are talking about - -

MR.CULHAM: That is one of the things.

MR. PATTILLO: Yes, well now, if that is what we are talking about aren't we merely then saying what was a good method of distribution for 1958 should be continued, there shouldn't be any change? Isn't that really what you boil down to?

MR. CULHAM: I hope not, Mr. Pattillo.

MR. PATTILLO: Does it necessarily follow that this method of dock warehousing, which has had a useful place in the past, is going to continue and would continue to be the main economical method?

MR. CULHAM: Absolutely. No doubt in my mind.

MR. PATTILLO: No doubt in your mind, from your experience in the business?

MR. CULHAM: That is correct.

MR. PATTILLO: That you cannot improve on that method?

MR. CULHAM: That is correct. I see no likelihood of an improvement in the overall transportation and handling of coal. I see no alternative method developed in the future that could improve the economical handling of coal movement by water.

MR. PATTILLO: Well, I am not suggesting that, but could it not possibly happen that although the small dock operator in Kingsville and other places like that go out of existence, instead of

having many docks as you presently have, you have a larger and more centralized operation and that when the average user wants his coal he becomes his own warehouse man for the quantities he needs?

MR. CULHAM: I am not sure that I get your point. I think, Mr. Pattillo, perhaps I could get to the point that you are trying to uncover. We have tried to say in our brief, take a large metropolitan area such as Toronto, there are, I don't know, 18 or 20 large coal docks. Now, part of the market is taken over by a new fuel; whether that be temporary or what the effect will be, there will just be fewer of them but everyone will still be able to get low cost coal from a coal dock because there will still be coal docks. They will not be the same companies; they will be larger, perhaps more efficiently controlled; mergers of companies, mergers of docks, and that sort of thing. That is a problem for us; for the coal distributors to find out which are the boys and which are the men, so to speak, but it really is a very critical problem in a place, or a smaller community where there is only one dock and where the restriction, again it may be temporary, but that dock cannot be cut back to 50 per cent of capacity without materially increasing the cost per ton of handling coal.

We think that with the type of competition which is now facing us that it is just about a

certainty that many of those small docks, being the only dock to serve an entire community, will go out of business.

MR. PATTILLO: But aren't you in this position: when you go to the consumer who is presently helping the small dock to stay in business but who is proposing to change to natural gas, do you not go to him and point out to him the problems that he is going to be faced with in your opinion in a very few years?

MR. CULHAM: Yes, sir.

MR. PATTILLO: And doesn't he then have to make up his mind whether he is prepared to take the risk of that problem in a few years, or whether he is going to stay with coal?

MR. CULHAM: Yes, sir. It is a selling job for us.

MR. PATTILLO: Well, it seems to me if you allow the laws of free competition to operate that is what it is. It is a selling job, if you think the problem is going to be as serious as you say it is going to be. How can you anticipate, and how can you expect government to anticipate by regulation today what may never happen in five years' time?

MR. CULHAM: How can we expect the government - - -

MR. PATTILLO: To anticipate by regulation

today something that may never happen in five years' time? You are asking the government now to regulate the sale of gas in a manner so that the greenhouse keeper won't convert from coal to natural gas?

MR. CULHAM: Yes, I would say so unless it is on a basis ratewise that is protecting the interests of the other people. In other words, with a reasonable distribution of expenses to all categories, and if they would take care of this greenhouse man then we really would not have any argument at all; would have very little reason to appear before this Commission if the gas industry were prepared to take care of that man's fuel supply, let us say indefinitely for all of his fuel requirements.

MR. PATTILLO: There has been no suggestion by anybody that I have heard that they are not. Are you suggesting that the gas companies will once they sign up a customer in a few years move around and say you have got to go somewhere else?

MR. CULHAM: Yes, sir.

MR. PATTILLO: On what do you base that?

MR. CULHAM: I think I might have to call on Professor Macgregor here. I believe it is almost a matter of record before this Commission that the sale of gas as boiler fuel would be restricted, commencing five or so years from now.

As I recall it, the estimates of Trans-Canada Pipeline indicate that the quantity of interruptible gas decreases as more remunerative lines are developed. I thought that was so. I can't quote chapter and verse. Let us say I am under that -- I am of that opinion.

MR. PATTILLO: So that you would have no quarrel if a government said to a gas distributor once you take on a customer you must continue to supply that customer so long as the customer wishes to be supplied at the rates that have been approved?

MR. CULHAM: The question is would we have any objection to that?

MR. PATTILLO: Yes.

MR. CULHAM: If the rates were equitable; equitable rates and the gas company would take care, I think we would be awfully foolish to have any objection. No, I would feel that now a new fuel has come in, it has characteristics that endears it to a certain type of buyer and we are just brushed to the side.

MR. PATTILLO: In the course of progress?

MR. CULHAM: That is correct.

MR. PATTILLO: Those are all the questions I have.

MR. CULHAM: Mr. Chairman, if I might say to Mr. Pattillo, Professor Macgregor has just

drawn to my attention that in this last summation that you made that we probably should include in that statement that they have permanent care for all of the fuel requirements. In other words, the interruptible thing creates a problem.

If we could visualize a large group of industries in a community on interruptible gas, all of the summer requirement of coal is gone, but the coal dock is still needed in the wintertime.

MR. PATTILLO: For peak-shaving?

MR. CULHAM: To take care of the man when he cannot get the gas. It is quite apart from conservation. To consider whether or not we would have an objection, if the gas industry takes care of all the requirements of all sections of the economy we would have to stand aside.

MR. PATTILLO: Does not the man who is going to buy interruptible gas for industrial use have to work out the costs as to how much it will cost him to peak-shave or to take over when he is cut off and work out the combined costs and see whether or not that is cheaper than coal?

MR. CULHAM: Yes. The ultimate effect of his decision to burn interruptible gas, that it may not be profitable to him in the long run is part of the thing that we are trying to do, quite honestly, in dealing with our industrial consumers.

MR. PATTILLO: But if he once comes to the conclusion that it is going to be cheaper for him, then you have had it?

MR. CULHAM: I guess that is correct.

THE CHAIRMAN: Mr. Culham, following

on your discussion with Mr. Pattillo, can you tell us what percentage of your tonnage of bituminous coal goes to the smaller communities such as the example you gave of Kingsville?

MR. CULHAM: What percentage of tonnage?

THE CHAIRMAN: Of the total tonnage?

MR. CULHAM: Of our docks as a group?

THE CHAIRMAN: Yes.

MR. CULHAM: I think we have some figures. We have a list, Mr. Chairman.

THE CHAIRMAN: Just roughly.

MR. CULHAM: It would be really quite a small tonnage.

THE CHAIRMAN: That is what I was wondering.

MR. CULHAM: Quite a small percentage of the tonnage.

THE CHAIRMAN: That is what I was wondering.

MR. CULHAM: The thing we are talking about is not, let us say, a serious problem for the United States producers of bituminous coal.

THE CHAIRMAN: No.

MR. CULHAM: It is a problem for our members.

THE CHAIRMAN: For the dock operator?

MR. CULHAM: For the small dock operator, or even a problem for the larger companies, for that section of the business which they have. It does go over the small docks where there is only one, but it would not be a large tonnage. To go down to the

matter of how many tons go over in a year, over these docks where there is a single dock in a community, it would be very small, about five thousand or six thousand tons out of 14 million.

THE CHAIRMAN: Just another question. Has your association appeared before the Ontario Fuel Board or the comparable agency in the Province of Quebec and stated your position with respect to approvals of rates for gas distribution in any particular locality?

MR. CULHAM: Have we appeared before them?

THE CHAIRMAN: Yes?

MR. CULHAM: In the strict sense of the word "appeared", I do not know that we have. I do not think there has been any occasion when we could have. We have talked with Mr. Dana Porter. We have submitted a number of briefs to the Ontario Government. We are in rather continuous touch with Mr. Crozier and his office on all matters pertaining to natural gas, including its end use and rates. We have taken our problem to the Province of Ontario.

THE CHAIRMAN: I wondered whether -- in specific instances, surely the Ontario Fuel Board and surely the comparable agency in the Province of Quebec, when an application is made by Northern Ontario Natural Gas -- I suppose it would be in the Province of Ontario -- or the Consumers' Gas or one of the distributing companies, goes before the

Ontario Fuel Board for determination of its rates, have you ever appeared on any such application and opposed it and stated your reasons why and endeavoured to get those rates altered?

MR. CULHAM: I do not believe, Mr. Chairman, that there is a hearing. I believe that the only hearing is the hearing of convenience and public necessity, or necessity and public convenience.

MR. PATTILLO: No.

MR. CULHAM: I have attended those hearings. In part of the hearing there is a suggested tariff, but that is not approved as of that time.

MR. PATTILLO: Excuse me, Mr. Chairman. I happen to know something about it. First of all, before you can distribute gas in an area you must apply for a certificate of convenience and necessity, and then, having got your certificate, you apply for rates. You then show the rate base and the suggested rates and the return that you can get from that. They may be put in temporarily, but at any time any person can apply to the Board for a hearing as to those rates, and then the Board fixes a time and it becomes a matter of a hearing.

MR. CULHAM: I am very glad to know that.

MR. PATTILLO: That is correct.

THE CHAIRMAN: I am coming back to

your brief and your recommendations, which present -- and as Mr. Pattillo says, it is no fault of yours -- constitutional problems from the point of view of the jurisdiction of the provinces and of the Dominion. You will hear, I have no doubt, from Mr. Frawley that Trans-Canada does not sell interruptible gas, and that was the testimony given before this Commission.

MR. CULHAM: That is understood.

THE CHAIRMAN: That gas is sold by the local distributor in Ontario. Surely the forum there is the body or board or government authority or provincial authority which sets the rates and deals with the certificate of convenience and necessity. Is that not where you would concentrate your efforts? It is not up to me to give you advice, of course.

MR. CULHAM: I think what was in our minds as much as anything else was that perhaps our government in its wisdom would establish a controlling body over all forms of energy -- perhaps I am using the wrong word when I say "controlling" -- like a National Energy Board, that would decide, that would establish an energy policy. We thought perhaps this jurisdiction of the province over certain affairs would be changed as of that time.

THE CHAIRMAN: I think you know enough about our constitution to realize that that cannot be done unilaterally and by any one government. That is one of the reasons I wondered why you took exception

to the establishment of a National Energy Board. In your brief you recommended that this be left to a government department. I would have thought that you did want something such as has been envisaged as a National Energy Board, which, even though it might not have jurisdiction, could at least sit down and consult with and try to integrate policies of this kind with the provinces and their respective boards. You would be given an additional forum to make these views known to such an authority. You would also have your provincial forum surely to which you must resort?

MR. CULHAM: Yes, sir, and we, in our modest quiet way have been approaching the provincial authorities as to the wisdom of using the gas for boiler fuel and the equity of rates and so on.

THE CHAIRMAN: I think you have been too modest.

MR. CULHAM: Well, that is one of our faults, I guess.

THE CHAIRMAN: I mean that seriously. This is what happens in Washington with the Federal Power Commission. We had before us yesterday people from Washington. Mr. Frawley?

MR. FRAWLEY: Thank you very much, Mr. Chairman. Mr. Culham, I want to ask you some questions on your very interesting brief, but

before that I would like to ask you some very general things. Would you turn to your list of members on page 39? As I understand it, those are by and large dock operators importing United States bituminous coal?

MR. CULHAM: Dock operators importing and handling - -

MR. FRAWLEY: United States bituminous coal?

MR. CULHAM: Yes.

MR. FRAWLEY: Now, looking at that list, I see Empire-Hanna, Rochester and Pittsburgh Coal Company and the Valley Camp Coal Company. Could you tell me a rough approximation volume-wise of what those three companies would handle?

MR. CULHAM: You understand that there is no way for me to get the information. So it would have to be a very wild guess. I could tell you that only for one company, but I would think that for those three companies it might be 4 million tons.

MR. FRAWLEY: Out of, roughly?

MR. CULHAM: Out of 14. Well, I would say 4 million tons out of the 18 million -- that is, last year.

MR. FRAWLEY: Are they the largest, those three?

MR. CULHAM: No, sir. The Weaver Coal

Company is the largest distributor of bituminous coal in Canada.

MR. FRAWLEY: But they distribute Canadian coal and British coal as well as United States coal?

MR. CULHAM: They may or may not. I do not know.

MR. FRAWLEY: Empire-Hanna, Rochester and Pittsburgh, and Valley Camp, while they operate docks in Canada, are really emanations of United States bituminous coal producers?

MR. CULHAM: Rochester Pittsburgh and Valley Camp, yes.

MR. FRAWLEY: And Empire-Hanna?

MR. CULHAM: We are not owned or controlled by an American coal producer.

MR. FRAWLEY: Is the MA Hanna Company not producing coal?

MR. CULHAM: No, sir.

MR. FRAWLEY: Have they no association with the production in the United States?

MR. CULHAM: They own stock in coal companies, or at least one coal company, perhaps more.

MR. FRAWLEY: I now want to ask you whether or not you know the effect which natural gas has had upon the coal industry in Western Canada.

MR. CULHAM: The question was whether I am aware of the effect?

MR. FRAWLEY: Yes, in general.

MR. CULHAM: In general, I would say, I am of the opinion that the effect has been very serious.

MR. FRAWLEY: Do you know that coal mines in Alberta are just going down like nine-pins?

MR. CULHAM: Well --

MR. FRAWLEY: That is just an expression.

MR. CULHAM: I think I have heard some of them are closing.

MR. FRAWLEY: The coal mining communities have to be depopulated as it is not possible for them to find employment otherwise?

MR. CULHAM: I think I have read some instances of that.

MR. FRAWLEY: That being so, the coal distributors must be very seriously affected also in Western Canada?

MR. CULHAM: I do not know. In the couple of instances I have in mind, I thought that the mines closed largely because of the lack of railroad business, rather than gas. I did not know that you would attribute the closing of a coal mine to the influx of gas.

MR. FRAWLEY: If not gas, it is something very closely associated with gas,

namely, a commodity called oil. The railways went to oil and they abandoned the coal mines and helped to close up the coal mines. You are aware of that?

MR. CULHAM: Yes.

MR. FRAWLEY: Apart from that, the firm industrial base for space heaters has gone from coal to gas?

MR. CULHAM: Not of my own knowledge, I do not know that.

I:iz
'15

MR. FRAWLEY: Now, I want to ask you about your definition of "industrial". Gas under boilers of a large hospital, for instance, or other large institutions -- hotels, schools, universities and that sort of thing, in Ontario -- do you call that industrial?

MR. CULHAM: Yes, sir.

MR. FRAWLEY: When you are talking about restriction of boiler fuel, have you included that?

MR. CULHAM: Yes, sir.

MR. FRAWLEY: Well, it may or may not be pertinent, but again going back to Western Canada, you are aware, of course, in the City of Calgary, in every large building under those boilers we find gas, not coal?

MR. CULHAM: At 10 cents a thousand, or something.

MR. FRAWLEY: Yes, but before we get to price I was wondering about why you object to the use of gas as a boiler fuel. Why is it any more wrong in the City of Toronto than in the City of Calgary?

MR. CULHAM: Well, I could make an effort to give you my reasons for it but I do not think I would convince you.

MR. FRAWLEY: Well, you might.

MR. CULHAM: I would say the reason was pretty well defined in what I would call the

summation of Mr. Pattillo. If they are willing to take the market over and serve the fuel requirements of this hospital, factory or what you will, indefinitely, if a new form of fuel has come in and in an adequate quantity and is going to continue, I do not say that might please us but we would put up with it. As Mr. Pattillo would say, "We have had it".

MR. FRAWLEY: What interests me very much is, you say there should be a restriction. On page 18 you say:

> "We are also aware that there is room for disagreement on the exact point at which the selling of the gas for purposes of low civilian priority should be restricted, and on whether the restriction should be applied to the end use or to price."

And when you read that this morning you said, "or to both, for that matter".

Now, if the price at which industrial coal -- because that is what you are interested in -- is sold in Ontario is a fair price, having in mind allocation of the cost of service, what is wrong with it?

MR. CULHAM: What is wrong with it?

MR. FRAWLEY: Why should it be restricted if the price that the user is paying is a fair price and a price arrived at after there

has been a proper determination, let us say by the Ontario Fuel Board, on all of the allocation and the cost of service?

MR. CULHAM: It would seem there could only be the one reason why such a restriction would be applied and that is conservation, because of the nature of the fuel.

MR. FRAWLEY: Well, that gets back to the amount of gas reserves we have in Alberta against what we want to export -- that gets back to the relationship between the reserves which we have in Alberta as compared to the gas which we have ruled may be exported.

MR. CULHAM: I suppose it does.

MR. FRAWLEY: You see, what disturbs me, and it is an intriguing thought, I have thought of conservation up to now to be a production problem, but you go further and it is an interesting thing you say, it must be conserved because it is such a valuable fuel it should not be used for these industrial uses. That is your position, is it not?

MR. CULHAM: Yes, but with all the refinements. Again coming back to the matter of anything temporarily going in -- and we have tried to point out here the difficulties accruing to what we think is an industry that has been of vital importance in the building of all this Great Lake area, the sacrificing of that area as a temporary expedient.

Now, if these docks were never going to be needed again we would have no case. That is the whole crux of our thinking, the fact that the gas people go in and take seven or eight months' business and say, "Well, we will supply you here but if we get a cold day we will have to cut you off, so you can go to the coal docks and get some coal". You cannot expect the customers just to sit around or stand by.

MR. FRAWLEY: I have two suggestions to that. First of all, you say the coal dock operation is being sacrificed, it is being very, very detrimentally affected?

MR. CULHAM: Yes.

MR. FRAWLEY: And in Western Canada precisely the same thing has happened due to precisely the same cause. That is, perhaps, just an observation and you have no comment to make on that except you might say, "It is too bad for the western coal people", but I suppose you have a sympathetic approach to it?

MR. CULHAM: Are you going to need the coal mines again some day?

MR. FRAWLEY: I am not sure; I would hope so, but while you mention that it is a more serious thing if you have to abandon a coal mine, that is worse than abandoning a dock?

MR. CULHAM: I am of the opinion that is

true.

MR. FRAWLEY: What some people will call, not too grandiloquently, the march of progress has required that and so it is an accomplished fact?

MR. CULHAM: Yes.

MR. FRAWLEY: The other thing that is perhaps more important, what makes you think that Trans-Canada, having monopoly on bringing Alberta gas to Eastern Canada -- what makes you think the won't be awfully anxious to continue to supply that greenhouse if the greenhouse is paying them ---

MR. CULHAM: The boiler fuel -- I think they will if it is the most remunerative market they can find, but I think they have intimated to this Commission that they hope it won't last too long, that they want more remunerative markets.

MR. FRAWLEY: That is interruptible gas?

MR. CULHAM: There is not too much of an interruptible nature to some of their functions, as I understand it.

MR. FRAWLEY: Well, the ideal sale, of course, is to the householder for space heating. That is called a firm sale, a sale to a householder for space heating?

MR. CULHAM: Do you mean the gas company would probably regard that as the most valuable business they have?

MR. FRAWLEY: Yes.

MR. CULHAM: I would think so, undoubtedly.

MR. FRAWLEY: They hope to have lots of that?

MR. CULHAM: I would think that figure, that the full output of that line will ultimately be needed for that and some other purposes during the winter months.

Now, to go back to your coal mine illustration, I think a parallel in our case would be if all these buildings that are buying gas in Calgary and burning gas, if they were told they could have gas for eight months but for the other four months they would have to go back to the coal mine and get their coal -- of course, we realize the serious consequences of closing a mine,and all the difficulties, but I think it is just about as serious closing it down for eight months. How would that affect the cost per ton of coal? You, better than anyone else, can visualize what our problem is. That is implicit in this brief.

MR. FRAWLEY: I would not want you to carry away the idea that there is not a peak problem and a storage problem in Calgary and in Edmonton, but I am putting it to you, when Trans-Canada say they hope they have not got to continue that kind of business too long, they are not referring to sales to the householder who buys it for space

heating?

MR. CULHAM: Oh, no.

MR. FRAWLEY: They are not, I suggest, hoping that they will not have to sell too long to a hospital on a firm basis?

MR. CULHAM: Well, I think that is a matter of rate. If they are going to sell somebody on a firm basis I do not think it is going to be within the realm of economics any place along the line for a gas distributor to sell a large hospital on a firm basis because coal is going to be the cheaper fuel in that case.

MR. FRAWLEY: The important distinction, I suggest, is firm as against interruptible?

MR. CULHAM: I would say yes.

MR. FRAWLEY: And any firm -- I say that the hospital is just as firm as the householder; it is just a matter of volume, but it is firm as distinguished from interruptible?

MR. CULHAM: Yes, and the hospital -- are you trying to visualize a condition where Ontario hospitals and other institutions and buildings and users of fuel in that category and size would buy gas on a twelve months' firm basis?

MR. FRAWLEY: Yes.

MR. CULHAM: And would we have any quarrel with that or do we think the gas company would look at that as desirable?

MR. FRAWLEY: Yes.

MR. CULHAM: I would think there would be nothing more desirable.

MR. FRAWLEY: Now, if they had adequate storage could they not carry on just such an operation?

MR. CULHAM: It would seem rather the case. I think there was an illustration here yesterday of gas companies who do not sell any interruptible gas. They simply take this gas which is squirting through the line; they have to take it out of the other end anyway, and they put it back into the ground close to their market. It seems as if that could be done if sufficient storage could be found or created, and it would be very beneficial, not only to the gas company but to the coal companies.

MR. FRAWLEY: If I may say so, I think you put your finger on it in your brief on page 23, where you say:

"The objective of maintaining the summer traffic in gas could be attained in Ontario, to a greater degree than now contemplated, by the delivery of surplus summer gas to underground storage for use during the winter."

I put it to you, Mr. Culham, if Trans-Canada -- and I keep insisting on calling it Trans-

Canada -- sell to the consumer who has the minimum storage problem -- I mean to the distributor -- but if Trans-Canada could acquire or were required to acquire adequate storage then there would be no need to sell this interruptible gas which you say is a pretty vicious competitor?

MR. CULHAM: Not only would there be no need, they would be in a more profitable position. My guess is it might even reduce the price to the user because of it.

MR. FRAWLEY: Yes, because the evil is the sale of this interruptible gas where they put it in and take it out at their own ---

MR. CULHAM: Yes.

MR. FRAWLEY: But if they could eliminate it, reduce it to a minimum, you people would not have the same problem?

MR. CULHAM: Oh, not at all. There is a problem, Mr. Frawley, if the United States coal producer had a problem.

MR. FRAWLEY: Of course, I could not care less about his worries. Just apropos of that, you are aware that the Dominion of Canada is spending a terrific amount of money in foreign exchange every year in supplying Central Canada with United States coal?

MR. CULHAM: Who is?

MR. FRAWLEY: The foreign exchange is

being expended?

MR. CULHAM: Yes.

MR. FRAWLEY: And the balance of trade is being built up adversely?

MR. CULHAM: Yes.

MR. FRAWLEY: And is natural gas -- all things being fair and all other things being equal, if the United States bituminous coal should be displaced, what great harm would there be to the national economy of Canada if every pound of it could be displaced?

MR. CULHAM: I will let Professor Macgregor reply to that, if I may.

MR. FRAWLEY: Yes, indeed.

THE CHAIRMAN: I do not visualize, Mr. Frawley, that the Commission will have to deal with that particular point in making any recommendations to the Government. I do not think it is necessary for Professor Macgregor to scratch his head on that one.

MR. FRAWLEY: Professor Macgregor, the Chairman has excused you.

MR. CULHAM: Would it be of any interest to you to know that the four of us are Canadians?

MR. FRAWLEY: You act and talk like Canadians.

MR. CULHAM: Let me assure you we are.

MR. FRAWLEY: You have something here that I would like to know about. When you mention this Crown Company, what do you mean when you say on page 24: ".... we would suggest that the Government consider modifying any minor terms or obligations, in connection with its Crown Corporation, which add to the existing incentive to press the sale of gas for inferior uses". If you are referring there to the sale of interruptible gas, I would like very much to know what you are referring to.

MR. CULHAM: I would rather let Professor Macgregor answer that.

PROFESSOR MACGREGOR: There is a provision - and may I say that I have to rely on the hearings of the Commission in regard to this - -

THE CHAIRMAN: That is the increased rental, the throughput.

PROFESSOR MACGREGOR: Also the price at which the line may be purchased by Trans-Canada apparently puts a premium on a purchase before a certain date and thereby exercises some pressure on Trans-Canada to increase its throughput and demonstrate its performance in purely physical terms at a somewhat earlier time in the hope of securing financing to buy the Crown Line at the 70 per cent figure. If instead the figure at which it could be bought would decline below

70 per cent and was purchased some years later, there would not be the same pressure to go in and buy at the time when the price starts falling.

MR. FRAWLEY: What interests me very much is that that arrangement puts pressure on Trans-Canada to sell the gas at whatever price.

PROFESSOR MACGREGOR: It is my prejudice - I may be wrong - that demonstration of a high load factor, whether or not it can be shown to be profitable, is evidence of good management.

MR. FRAWLEY: That is very intriguing.

PROFESSOR MACGREGOR: Again I may add that it is a prejudice of mine that in the operation of Public Utilities the engineers' use of standards of efficiency sometimes takes precedence over the business matters of the economists' test of profitability. It sometimes leads to the demonstration of records that don't necessarily have a business basis.

THE CHAIRMAN: Slide-rule profits.

PROFESSOR MACGREGOR: I think so.

MR. FRAWLEY: Your objective is that not too much of this gas be sold for industrial purposes at low prices and at prices which do not properly reflect the true cost of the pipe line company - -

MR. CULHAM: Not industrial uses;

you said industrial uses. It is not as broad as that. There are other uses for which we think gas is properly used.

MR. FRAWLEY: If the Ontario Fuel Board came to an appreciation of the fact that they must examine the contract between Trans-Canada and Consumers and Trans-Canada and Northern Ontario and Trans-Canada and Union, and they do it in public hearings, I would suggest that you would be doing a great service to yourself and the producer of gas in Alberta to attend these hearings and to see that the proper allocation of cost is arrived at - -

THE CHAIRMAN: Mr. Frawley, surely you are not asking these people, who come voluntarily before the Commission, to act as Commissioners in the Ontario Fuel Board. What you are getting at is you don't want interruptible gas?

MR. FRAWLEY: Yes, that is right, for the Province of Alberta.

THE CHAIRMAN: From the producer?

MR. FRAWLEY: Yes.

THE CHAIRMAN: But the same price is paid.

MR. FRAWLEY: Yes, but, as one of the witnesses agreed with me yesterday, it certainly dilutes the gross revenue, and that is not a good

thing.

MR. PATTILLO: Dilutes the gross revenue of whom?

MR. FRAWLEY: Of Trans-Canada.

MR. PATTILLO: I think we had better get it clear on the record. The evidence, as I understand it, is that the producer of gas in Alberta is paid so much for a 1000 cubic feet of gas, regardless of the end use. Trans-Canada transports the gas, and Trans-Canada is paid, based on the load factor, by the distributor certain rates in certain zones per 1000 cubic feet, regardless of the end use, and the distributor then takes the gas and distributes it in accordance with rates approved by the Ontario Fuel Board to the different classes of customers; but how you could anticipate, with great respect, the Ontario Fuel Board would have any right to hold public hearings into the contract made by an interprovincial company, Trans-Canada, and a distributor is, with great respect, beyond me. The Ontario Fuel Board, or any other provincial organization, in my judgment, has the perfect right to enquire into any contracts that the distributor may make with customers or classes of customers; that is the end of its jurisdiction. Certainly, as I read the Ontario Fuel Act, that is the way it is in Ontario.

MR. FRAWLEY: Mr. Pattillo having put that statement on the record, Mr. Chairman, I am bound on behalf of my client to put a statement on the record. I am not concerned with the Ontario Fuel Board entering into any public hearing as to what the price of gas will be at the wellhead. Now, I am concerned with the fact that, if you take an extreme case - I have to deal in suppositions - suppose that Trans-Canada is to sell one half, two thirds of its gas on an interruptible basis, I would say that that would so dilute the revenues of Trans-Canada; whereas I am hoping, in the distribution of cost, that they will get such prices for it that they will be able to go back to Alberta and meet the competition in California that they may or may not have to meet right now.

I am instructed that the question of interruptible gas is a matter of serious consideration for the producer in Alberta, and that is why we say that the interruptible sales of gas should be the subject of regulation, we say by a Federal Commission. If the Ontario Fuel Board could not go into that and weigh the interruptible sales against firm sales, then I say there is a Federal authority that should do it. I don't say the Ontario Fuel Board will not do their job and do it well, but Mr. Culham could

simply be serving himself first and, indirectly, be doing a service to the people in Alberta.

THE CHAIRMAN: I think the Commission - I hate to interrupt like this, but I really feel that the Commission has clearly sufficient evidence about interruptible gas for the time being, in so far as our responsibilities are concerned, in its relationship to the price paid by Trans-Canada for gas in Alberta or Western Canada. I know that you have those instructions; you have fulfilled them religiously and righteously, Mr. Frawley, and the Commission is grateful for the evidence you have produced as a result of your questioning.

MR. PATTILLO: In deference, Mr. Chairman, I think it must be put clearly on the record so that the public or the members of the House of Commons won't misunderstand the situation. The fact is that Trans-Canada, a producer in Alberta, is not selling interruptible gas, it is selling a commodity, and Trans-Canada is not selling interruptible gas, it is selling a commodity. It is the distributor that may sell gas, and one class may be interruptible.

THE CHAIRMAN: I think that statement is true of West Coast Transmission which sells to Inland; Inland is an agent for West Coast under the provisions of Regulation 9.

MR. PATTILLO: That is correct.

MR. FRAWLEY: So that no one in the House of Commons will misunderstand me, I subscribe to that obvious and self-evident fact.

Mr. Culham, you say: "the extremely low rates for interruptible gas", Those are rather equivocal words. I wonder if you could expand upon that, please.

MR. CULHAM: Why do I think they are extremely low?

MR. FRAWLEY: What do you mean? "Extremely low " is just a relative term, you know. I want to know what you have in mind - low compared to what, and so on.

MR. CULHAM: Low compared to the price which they apparently think is necessary for the domestic consumer; low compared to the price which they apparently think they must have from the firm buyer of large quantities of gas. That is what I mean by that.

MR. FRAWLEY: In other words, you go a little further and say that, because of these low rates for interruptible gas, they have to charge more than they otherwise would for the firm industrial and for the household gas.

MR. CULHAM: No, I don' say that - I mean, I don't think that. It doesn't arise from anything I think I said.

MR. FRAWLEY: If they were low but,

nevertheless, returning an adequate share of the cost of service, what is the position?

MR. CULHAM: We have not made a study. Mr. Van Scoyoc discussed it in great detail. Frankly, I don't understand how they go about it. I find it difficult to understand, and this is, I might say, based on the most casual observation: one service over here can require a rate of, let us say, 80 cents, and a man next door will pay 40 cents. Either one is too high or the other one is too low. I don't believe that there has been enough attention paid to whether or not a minimum rate - and incidentally, I am going to go back and search not only my conscience but my records and anything else I can find around the Ontario Fuel Board and see if we are supposed to know at what rate gas can be sold for industrial use.

So far we have not been able to find out at what price gas is being sold to paper companies, and so on.

MR. FRAWLEY: You say the Ontario Fuel Board does not seem to have that information?

MR. CULHAM: I say that we do not seem to be able to find out so far. We only know that there is a range in here of rates, and we cannot even be assured that there has not been a special rate approved by the Ontario Fuel Board because it is not a matter of an open hearing. It is not a matter of anyone that has been served notice. It is apparently simply a matter of the gas company saying: "Here is a fellow over here wants to buy 'X' billion cubic feet of gas, and heck, we have got a rate here from 30, or 42 to 48 but he will have to have 40. What do you think? Is that all right? And Mr. Crozier maybe says, sure, I guess that is all right".

MR. FRAWLEY: Would you favour having those sort of things discussed in an open hearing?

MR. CULHAM: I would kind of like to know, and I think I can much more intelligently discuss whether or not the rates are too high or whether they are exceedingly low if I knew what they were.

MR. FRAWLEY: You wish there was an open hearing in which those things were discussed,

or failing that if you were given complete access to that information, whether an open hearing or not.

THE CHAIRMAN: That is page 24 of the recommendations.

MR. CULHAM: We tried to say it in a little different way.

THE CHAIRMAN: But that is what you mean?

MR. CULHAM: Well, yes.

MR. FRAWLEY: Here is one thing, this is my last question, do you know the percentage of oil bunker fuel; that is, there is a certain amount of bunker fuel being displaced in Ontario, or proposed to be displaced in Ontario by Alberta gas.

MR. CULHAM: Has been.

MR. FRAWLEY: All right, has been. It is not Alberta gas yet but it is coming down.

MR. CULHAM: I think it is in at the lakehead, I believe.

MR. FRAWLEY: At the lakehead, oh yes, that is Ontario, that is right. Now, do you know the percentage; do you know some of that bunker oil is imported from the United States?

MR. CULHAM: I have so heard.

MR. FRAWLEY: And some of it is refined in Ontario Refineries using Alberta oil?

MR. CULHAM: Oh, I can't speak for that.

MR. FRAWLEY: I am just putting that to

you as a fact.

MR. CULHAM: Oh, I see.

MR. FRAWLEY: Now, assuming that those are right, do you have any information at all in your organization about the percentage one as against the other?

MR. CULHAM: No.

MR. FRAWLEY: Thank you, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr. Frawley. Mr. Britnell?

MR. COMMISSIONER BRITNELL: Mr. Culham, one point I would like to clear up. I understood from your answer to Commission counsel that your central objection to the operation of the gas business is that the distributor of gas does not guarantee to supply his customer with gas on an interruptible basis and at the prices appropriate to interruptible gas permanently, is that right?

MR. CULHAM: Yes, I would say so, Mr. Britnell, and further that I think that Trans-Canada have indicated that they do not intend to stay to the same extent -- they are not desirous of staying to the same extent in the interruptible market. Now, that is my impression.

MR. COMMISSIONER BRITNELL: I have understood right along that Trans-Canada wasn't in the interruptible market. I am not talking about Trans-Canada, I am talking about the gas distributor.

MR. CULHAM: Well, I have been assured here that that is the case, but still, as I recall it in their market surveys they classify interruptible and industrial, and so on. Now, it is true that they probably sell just so many feet of gas, but they show a great interest in what happens to the market.

MR. COMMISSIONER BRITNELL: In their market analysis.

MR. CULHAM: In their market analysis, yes.

MR. COMMISSIONER BRITNELL: Do you guarantee to supply your commodity or service without varying your present schedules or rates or charges?

MR. CULHAM: Oh, not without changing prices, no. We will take on a twenty-year, forty-year or fifty-year contract depending on the reserves of the particular mine, and if it is not held down to a particular mine, we will go a good deal longer than that and guarantee a supply for a definite number of tons or as a percentage of the minds requirement. It is done regularly by the large coal companies.

MR. COMMISSIONER BRITNELL: Doesn't the greenhouse operator who makes the decision to switch from coal to natural gas know that he has no guarantee for the indefinite future of even a partial supply, let alone his present supply of interruptible gas?

MR. CULHAM: I think if he knows, presumably one place he would have found it out is from us.

MR. COMMISSIONER BRITNELL: But doesn't he know from the very nature of the word "interruptible" that?

MR. CULHAM: Oh yes, as to its seasonal characteristics, but whether or not this business is going to continue to be desirable I don't think he knows.

MR. COMMISSIONER BRITNELL: There has been a good deal of publicity attached to that, has there not? Perhaps we are a little more conscious of it than the greenhouse operator was.

MR. CULHAM: Well, I think perhaps my choice of customer, the greenhouse man, was not a wise one but a fortunate one because I mean you have a picture in your mind of a greenhouseman, I am sure; a man that burns two or three hundred tons in a greenhouse. Now, I think you would recognize how little real study he is likely to give to the overall effect or conversion on his part from gas. I mean he will be appealed to by a romantic approach or at least any kind of an approach liable to sell him.

MR. COMMISSIONER BRITNELL: Well, with your greenhouse operator, and I would like to stay with him; he is your example and I think it is

only fair to stay with him, does it mean more than that the gas company will continue to supply him with gas but that the rates he has to pay will be increased as a larger proportion of his requirements, and eventually all perhaps of his requirements are moved over from an interruptible to a firm basis, and from interruptible to, or partially interruptible to completely firm prices?

MR. CULHAM: It would be a matter certainly, Mr. Britnell, that he very likely always could buy gas unless some government regulation came in which prevented that. That has happened, you recall, during the last war. There was government regulations made that controlled the way gas would be used and said what is a fitting use for gas. I would say that the man presumably, if he will pay the price that you may want, he will buy anything if he will pay for it.

MR. COMMISSIONER BRITNELL: Assuming that prices for gas may rise higher than the greenhouse operator is prepared to pay, or willing to pay or wants to pay, is there any clear responsibility on the part of any government, whether federal or provincial, to safeguard that greenhouse operator from having to pay more for his coal in the future because you have to restore or rebuild your dock facilities when the price of gas goes beyond what he is prepared to pay?

MR. CULHAM: Well, it is very difficult, if not impossible, for me to answer that question in a form of a recommendation of how I think the government could cope with that individual situation.

MR. COMMISSIONER BRITNELL: Well, my point really is this: isn't it asking for a lot of government intervention to safeguard the consumer? Wouldn't it be better just to put him under the Indian Act right away and leave him there if you are going to safeguard him that far that you want to protect his present dock facilities and the schedules rather than have him go over to interruptible gas; risk having to come back and pay higher prices for the services which you render because you have to rebuild at considerable increased cost or replace even those dock facilities?

MR. CULHAM: Mr. Britnell, I don't think that it is too much an unrealistic or an extravagant request on our part to ask that government intercede, in whatever way it is needed, to protect the consumer not protect the coal dock industry, from a situation where gas would be sold today for a class of use that is not deemed to be desirable for long-term and at prices which do not carry their full share of the cost.

Maybe that is the fact right today. Maybe these rates are all fine and have proper care -- heed has been given to these things then we are

just wrong. Now, I don't know whether that answers your question.

MR. COMMISSIONER BRITNELL: Well, partially, but only partially. Thank you very much.

THE CHAIRMAN: What all of this really means is that interruptible gas, Trans-Canada Pipe Lines and the rest of them mean that those of us who are compelled on occasion to buy red roses are going to have to pay a higher price?

MR. CULHAM: Mr. Chairman, yes. I would - -

THE CHAIRMAN: I am only joking.

MR. CULHAM: No, but actually you have expressed a point that I have been trying to express, better than I could do it myself. That 9
is in my opinion what is going to be the end result. These red roses or the varnish or whatever it is is going to cost more money, and this is all assuming that the coal dock is going to be repaired again in the future. Now, if our dock has fallen into disrepair, we have to build a new dock. At this time that there is a need for a dock again, the cost of coal as a consequence of this change or the abandonment of the dock is going to be higher.

THE CHAIRMAN: Just for the sake of the record let us get it straight. My fellow Commissioner,

Mr. Hillman a few minutes ago wondered just what a greenhouse in the summertime would be using gas for boiler fuel.

MR. CULHAM: The greenhouse is probably the worst prospect there is for interruptible gas.

THE CHAIRMAN: Well, Mr. Culham, thank you very much indeed. The Commission is conscious of this problem that does exist from the point of view of coal and other fields, and the dovetailing of proper energy policy of the various forms of energy in our country. Your presentation obviously has received from you and your colleagues and advisers a great deal of consideration; great deal of thought.

We appreciate very much that you have come and given it to us and I hope you don't mind the fact that you were asked a lot of questions, but there are jurisdictional problems which I know you realize. You have chosen the form in which you have put in a very good brief on the matters which concern you and your associates, and we certainly will give it every consideration within our terms of reference and capabilities.

MR. CULHAM: Thank you very much, Mr. Chairman. We appreciate very much the patience with which you have received our brief and my reaction to the cross-examination or questioning. I feel very, very strongly that we should be most

thankful, all of us, that occasions such as this do arise when we can openly expound our problems. Now, I have said the thing that I am not supposed to ever say, "our problem". I am supposed to talk about the public interest, but frankly we have a problem.

Thank you very much, Mr. Chairman.

THE CHAIRMAN: So has Alberta. Mr. Pattillo, I think we are hearing Sun Oil this afternoon?

MR. PATTILLO: Sun Oil this afternoon.

THE CHAIRMAN: We will adjourn now, gentlemen, to resume our hearings in this room at two-thirty this afternoon.

---Whereupon the proceedings adjourned at 12.45 p.m. to resume at 2.30 p.m.

---On resuming at 2.30 p.m.

Submission of

SUN OIL COMPANY LIMITED
Toronto, Ontario

Appearances:

MR. W. T. Askew	-	President
Mr. M. B. Parmelee	-	Secretary Treasurer
Mr. G. E. Dunlap	-	Manager, Canadian Production Division

MR. PATTILLO: Mr. Chairman, we are now going to hear the submission of The Sun Oil Company, which I would like to have marked as Exhibit M-15-3.

---EXHIBIT NO. M-15-3: Submission of Sun Oil Company Limited.

MR. PATTILLO: I think I should say this before I call on Mr. Askew to introduce his group and to submit the submission.

We have heard a good deal about this company in previous sessions of the Commission, and having read the submission I think that some of the information we have received is, to put it mildly, erroneous.

THE CHAIRMAN: You mean prior to this submission?

MR. PATTILLO: That is right.

THE CHAIRMAN: Mr. Askew?

MR. ASKEW: Mr. Borden and Commissioners, I have an introduction to the brief, if I may be permitted to read it before the submission.

May I say at the outset that, while I am president of Sun Oil Company Limited and not an officer of the parent Sun Oil Company, I shall provide certain information concerning both, for reasons which will be apparent to you.

With me, on my right, is the manager of Sun Oil Company's Production Division, Mr. George E. Dunlap. He is a resident of Calgary, and I am sure you will find him helpful in responding to particular questions which you may have concerning the exploration and production activities of the Sun organization in Canada.

Also here to assist me, on my left, is the secretary-treasurer of Sun Oil Company Limited, Mr. M. B. Parmelee, a resident of Toronto.

I am pleased to present both of these gentlemen to you.

We welcome the opportunity to appear here and we hope to provide information useful to you in the studies in which you are now engaged. As a relative newcomer to Canada, I have been interested to observe the concern which is being exercised over energy questions at this time.

While rich in potential petroleum resources, Canada did not have significant petroleum resources, in fact, until recent years. Resources are the result of the ingenuity of man, for a raw material that is not developed is not a resource. It becomes such only when it has been discovered and developed and made useful to people.

Now that petroleum resources in substantial volume are a reality, it has seemed to me that Canada is well-advised to consider at this juncture how best to assure continuing petroleum resource development and expanding utilization. It is apparent that a direct relationship exists between standards of living and per capita consumption of energy. Any policies growing out of the work of this Commission which help to make reliable and abundant supplies of energy readily available at competitive prices to Canada's homes and industries will place present and succeeding generations in your debt.

It also is clear that the liquid energy represented by petroleum now is and will for many years be of direct military application and therefore an essential element in national defence. Thus it is a matter of national concern that plentiful supplies be accessible for defence requirements, and I might say for the common defence requirements of the continent. Accordingly, the overriding

considerations in the present inquiry of your Commission would seem to me to include the encouragement of continued energy resource development and increasing per capita consumption as contributions to national wealth and standards of living and the security against eventualities for which the Western world must, it seems, always be prepared.

In his kind letter inviting my appearance before your Commission, Mr. Parkinson suggested several lines along which the submission of Sun Oil Company Limited might be developed. It has been our objective to be as responsive as possible.

THE CHAIRMAN: Thank you.

MR. ASKEW: Submission of Sun Oil Company Limited, Toronto, Ontario.

There have appeared before you organizations of senior experience in Canada whose staffs of fact-finders demonstrated marked competence in collecting and analyzing information on the detail as well as the broad picture of the status and prospects of the Canadian petroleum industry.

It has not been our purpose to attempt a similar contribution since we doubt that there are very many correct answers to the same questions of fact. Nor have we had experience from which we feel competent to draw conclusions with respect to a few of the issues which our reading of the

record indicates have been of particular interest to you.

It has been our feeling that what we say would be of greatest value to you if we could clearly present the picture of who we are, what we have done and why, what we are now doing and why, and what we hope to be able to do. Beyond that, within the limits of our knowledge and experience, we will be as responsive as possible to your specific questions.

Company Affiliation: Sun Oil Company Limited, incorporated under the Dominion Companies Act, is a wholly-owned subsidiary of Sun Oil Company. The latter is an independent, integrated oil company incorporated in the State of New Jersey with principal offices at Philadelphia, Pennsylvania.

Description of Sun Oil Company: The parent company -- for brevity referred to as Sun Oil -- produces crude oil in 18 states and in the Provinces of Alberta, Saskatchewan and Manitoba, and has a working interest in a limited number of oil wells operated by others in British Columbia. About 80 per cent of Sun Oil's total crude oil production comes from Texas and Louisiana.

Sun Oil also produces natural gas in some of the states in which it is a producer of oil, has a few shut-in gas wells in Alberta, and

a working interest in some producing and shut-in gas wells in Alberta and Saskatchewan.

Through subsidiaries, Sun Oil, since the middle of April, 1958, has produced crude oil in Venezuela and is engaged in oil exploration activities in several other countries, including Colombia, Guatemala, Pakistan and the Bahamas.

Sun Oil owns and operates a fleet of 14 ocean-going tankers, eight coastal tankers, and a number of barges and other water equipment.

Through subsidiaries, it owns and operates in the United States 1,723 miles of crude oil gathering and trunk pipe lines, and 1,214 miles of products pipe lines.

Sun Oil owns and operates two refineries -- one of 160,000 barrels daily capacity at Marcus Hook, Pennsylvania, and one of 95,000 barrels daily capacity at Toledo, Ohio.

It markets automotive products through service stations in 21 eastern and mid-western States and the District of Columbia, and markets industrial oils and specialty products in those and other States. Through subsidiaries, it markets industrial oils and specialties in most of the Free World.

Other subsidiaries are engaged in ship-building and repair; the design, sale and rental of oil well surveying instruments; and mercury mining.

THE CHAIRMAN: As a matter of interest, is that shipbuilding and repair related to the tanker fleet?

MR. ASKEW: Yes, it is.

THE CHAIRMAN: Not otherwise?

MR. ASKEW: The Sun Company's shipbuilding is located at Chester, Pennsylvania, and it makes other equipment, other ships, but its primary purpose is shipbuilding and repair.

THE CHAIRMAN: Primarily tankers?

MR. ASKEW: Yes, but not necessarily restricted to tankers.

THE CHAIRMAN: Thank you.

MR. ASKEW: Among U. S. oil companies, Sun Oil ranks between 11th and 14th in production, refinery throughput, sales and assets. It is owned by approximately 24,000 stockholders, of whom 348, largely because of a stock purchase plan for employees inaugurated in 1926, are resident in Canada.

Beginnings of Sun Oil Company Limited: Sun Oil Company Limited -- referred to as Sun Limited for convenience -- began in a one-room office in Montreal in 1919. It came into being because the response of Sun Oil to military requirements for lubricating oils during the First World War found it, at the war's end, with expanded capacity and the need for more customers.

Eastern Canada, accessible by water from Sun Oil's principal refinery on the Delaware River near Philadelphia, was a likely and economic market.

Thus the first mission of Sun Limited was to acquaint an increasing number of potential customers in Canada with the lubricants which constituted the principal business of Sun Oil in its early years.

From an object of market outlet at the beginning, Canada has come since 1945 to have a much deeper significance to the Sun organization.

Telescoping history between 1919 and 1945, the volume of business of Sun Limited in lubricants increased and in the 1920's retail gasoline distribution also was commenced.

Sun's Expanding Interest in Canada: The year 1945 is a pivotal one because it marked the start of an expanded interest on the part of the management of Sun Oil with the long-range growth opportunities for risk capital which Canada offered. In that year Sun Limited drilled its first well in Canada along the northern border of Nova Scotia. It was completed as a dry hole.

The following year -- 1946 -- the site was chosen upon which the Sarnia Refinery of

Sun Limited was subsequently built.

In 1953, while the Sarnia Refinery was under construction, Sun Limited joined with Canadian Oil Companies Limited to construct an 8-inch products pipe line extending from Sarnia to Toronto. For this purpose, Sun-Canadian Pipe Line Company Limited was organized as a subsidiary company, owned two-thirds by Sun Limited and one-third by Canadian Oil Companies Limited.

EARLY PRODUCTION ACTIVITIES: Until 1949, exploration and drilling activities by the Sun organization in Canada were carried on by Sun Limited. In the four-year period from 1945 to 1949, Sun Limited conducted field geology and seismic exploration activities in Nova Scotia and Alberta and drilled a total of four dry holes.

By the end of the four-year period, Sun Limited had expended on leasing, exploration and drilling activities the equivalent of approximately seven years of its anticipated net earnings. It was abundantly clear that Sun Limited could not afford a production department on such a scale. In March, 1949, the effort to develop Canadian production was transferred from Sun Limited to Sun Oil and organized as a new division of the parent company's production department with Mr. George E. Dunlap in charge.

Subsequent activities conducted by Sun Oil's Canadian production division have brought total investments by the Sun organization in the development and production of Canadian oil and natural gas to approximately $56,500,000.

The incapacity of Sun Limited to finance the costly development of oil and gas resources, so apparent in 1949, still prevails. In 1956 Sun Oil's Canadian production division showed a loss of

a loss of $2,637,000, and in 1957 a loss of $2,651,000. In contrast, the net earnings of Sun Limited for those years were substantially smaller than the losses in Canadian production.

We are confident that this condition will not continue indefinitely and that the integration of Sun Limited as a self-sufficient Canadian company, divorced to a far greater extent from its parent than is the case today, can be effected. This avowed intent of the Sun organization is discussed in greater detail at a later place in this brief.

SUN LIMITED'S REFINING OPERATIONS: Sun Limited commenced refining operations in November, 1953, in a refinery of 15,000 barrels per day design capacity at Sarnia, Ontario. It represented at the time of its completion advanced instrumentation and design, yielding desirable efficiencies as an offset to its small size, and at the same time a pioneering experiment in human terms. No employee of the refinery is hourly paid; all are on an annual sslary.

In 1957 the Sarnia Refinery averaged 17,400 barrels per day of crude runs to stills. This established a record in its throughput, occasioned primarily by Sun Limited's expectation that it would have a market for the ensuing volume of products. The expectation unfortunately

[illegible]

proved unfounded, due to the combination of events which adversely affected the general economy in the last half of the year. In the first six months of 1958 the refinery has operated below its design capacity.

The Sarnia Refinery is equipped to manufacture motor gasoline, kerosine, heating oil, residual fuel oil, butanes, and fuel gas. It is too small to support the economic manufacture of lubricating oils. At the same time it has proved thus far to be too large to find outlet within Canadian markets developed to date by Sun Limited for the total quantity of motor fuel it is capable of making. Sun Limited has been detained in the realization of its marketing goals for automotive gasoline by increasing competition in retail sales and the rising cost of service station construction.

SARNIA REFINERY CRUDE SUPPLY: Sun Limited's entry into refining was made in anticipation of providing an outlet for western Canadian crude oil production, part of it resulting from Sun Oil's continuing investments in exploration and drilling. At the time the crude supply for the Sarnia Refinery was planned, western Canadian crude was accessible only by water transportation from Superior, Wisconsin. However, discussion of an extension of the

Interprovincial Pipe Line was prevalent, and this mode of transport was much to be favoured over the use of lake tankers. The extension of Interprovincial was taken into account in future planning. In the meantime, however, through a combination of economic factors and business opportunity, Sun Oil had engaged in two pipe line projects which fitted neatly for an interim period into the solution of the Sarnia Refinery's crude supply problem.

In 1949, in a move essential to the maintenance of the competitive position of its refinery at Toledo, Sun Oil joined with Standard Oil Company (Ohio) to build a large-diameter crude oil pipe line from Longview, Texas, to Lima, Ohio. For this purpose the Mid-Valley Pipe Line Company was organized. Over and beyond the money directly invested, Sun Oil and Standard Oil Company (Ohio) each guaranteed repayment of 50 per cent of the original borrowings by Mid-Valley amounting to $49,500,000. As of December 31, 1957, nearly $22,000,000 of mortgage bonds obtained by Mid-Valley were yet to be repaid.

From its terminal at Lima, the Mid-Valley line joins another common carrier - - the Buckeye Pipe Line System, in which Sun Oil has no ownership. Directly and through this and other interconnections, the Mid-Valley line delivers

crude oil from the Gulf Coast-Southwest area to refineries located at Toledo (including Sun's), Findlay, Lima, Cleveland, Canton and Cincinnati in Ohio, and at Latonia, Kentucky, and Magnolia, Arkansas.

A map of the Mid-Valley system and interconnecting lines is shown as an attachment to this submission.

The Mid-Valley line is approximately 1,000 miles long and is constructed of 20- and 22-inch pipe. Its capacity is approximately 235,000 barrels daily. In 1952 Gulf Oil Corporation purchased a 9 per cent interest in Mid-Valley.

The second pipe line project which subsequently figured in the Sarnia Refinery's crude supply was started in 1950 and completed at a cost of $2,700,000 in January, 1951, by Susquehanna Pipe Line Company, predecessor to Sun Pipe Line Company, a wholly-owned Sun Oil subsidiary. This is an 8-inch products pipe line extending from Sun Oil's Toledo Refinery to a large Sun Oil terminal at River Rouge, Michigan, and thence to Sarnia. The Toledo-Detroit section was made imperative by a sharp expansion in volume of business through the River Route terminal. The Detroit-Sarnia section of the line held several possibilities. First, it anticipated the future

crude requirement of the Sarnia Refinery, tieing in with the Mid-Valley-Buckeye systems. Second, the line could ultimately be used also for the transportation of products. Third, it provided an immediate opportunity to reduce costs in the delivery of butylene to the Polymer Corporation at Sarnia. Sun Oil had been a successful bidder in supplying this Canadian Government-owned synthetic rubber plant, and for lack of any other available transportation had been required to make high-cost shipments by rail from Toledo. In the interest of assisting the Polymer Corporation, construction of the line to Sarnia was completed almost three years before the Sarnia Refinery came on stream. Completion of this line enabled Sun Oil to make a significant reduction in the laid-down cost of butylene at Sarnia.

Contemplating the completion of the Sarnia Refinery, then, it was apparent that it could take over part of the task of supplying butylene to the Polymer Corporation. This would reduce the load on the Toledo-Sarnia line, giving the line sufficient capacity to handle the crude requirement of the Sarnia Refinery in addition to intermittent shipments of heating oils made subsequently to meet peak winter demands. To accomplish all this, a second products line from Toledo to Detroit would be needed. This second

line was completed in July, 1953, and the very limited storage constructed at Sarnia was supplied with Southwestern United States crude by the time the Sarnia Refinery began its initial runs in November, 1953.

It was at this approximate time that the Superior-Sarnia extension of the Interprovincial system was completed. The Sun organization did not, however, look upon the conversion of the Toledo-Sarnia line as committing the Sarnia Refinery irrevocably to United States crude oil, as the subsequent record bears out. On the other hand, having conceived and commenced these facilities before an economic alternative was available, and having committed funds to them, both directly and by guarantees, it was obviously desirable to operate them and to attempt to make them pay for themselves.

From the beginning until March, 1957, the Sarnia Refinery operated exclusively on United States crude. In that month, it commenced running 4,000 barrels per day of Interprovincial Pipe Line Mix which continued until October 1, 1957. No Canadian crude was run for the next 90 days. On January 1, 1958, the Sarnia Refinery resumed the use of Canadian crude at a rate of 6,000 barrels per day, and in June, 1958, the rate was doubled to 12,000. It is our expectation

that this rate will continue for some time, but that ultimately the Sarnia Refinery will operate, as originally planned. 100 per cent on Canadian crude.

The background may be of interest to you. For the first two to two and one-half years of its operation, the Sarnia Refinery exercised extreme measures to avoid the production of residual fuel oil. Sun Limited had not been a marketer of this product; consequently it had no outlets. Because of its nature and the effect of extreme winter temperatures, residual fuel oil requires extensive storage and expensive transportation. It is at the same time a low-value product and yet one which can shuta refinery down unless shipments bear a reasonable relationship to storage and the rate of output. While Sun Limited worked to develop markets for this product, the availability of lower residual-content crudes from the United States was a decided advantage to the continued operation of the Sarnia Refinery.

When, in early 1957, the various factors bearing on the situation were as a matter of business judgment favourable to the utilization of Canadian crude at the Sarnia Refinery, an unusual arrangement had to be worked out in the absence of a direct connection between the Sarnia Refinery and the Interprovincial line. The arrangement consisted of an agreement with Imperial Oil Limited to receive and transfer Interprovincial Pipe Line Mix for Sun Limited. This was accomplished with a combination of pumps at the Imperial refinery and at the pumping station hear Sarnia of the Sun-Canadian Pipe Line Company Limited. These pumps handle the back-haul movement from Imperial to Sun Limited through a short interconnecting pipe line constructed for the purpose.

Sun Limited paid for the original pump installation and under its arrangement pays Imperial a per-barrel terminaling fee. When it became possible in June of this year to double the Sarnia Refinery's utilization of Canadian crude, additional expenses were incurred to expand these facilities.

The original arrangement for the movement of Canadian crude to the Sarnis Refinery was made in February, 1957. The following month Sun Limited arranged for a meeting on April 12, 1957, with Interprovincial Pipe Line Company to

discuss a direct connection with the Sarnia Refinery. Following this meeting, Sun Limited supplied to Interprovincial an engineering print of the tankage at the Sarnia Refinery necessary for Interprovincial's design of the interconnection. Finally, by letter dated August 14, 1957, Sun Limited informed Interprovincial as follows:

> "We hope that we can be in a position to receive Canadian crude via Interprovincial by May of 1958. We cannot be very definite at this time as to quantity; but it will vary from 5,000 to 20,000 barrels per day. It is our intent to eventually run all Canadian crude, and within six months to a year, we should average 20,000 barrels per stream day."

On March 21, 1958, Interprovincial informed Sun Limited that it had made considerable progress in obtaining right of way for the interconnecting line and that it expected to be able to deliver crude directly to the Sarnia Refinery beginning August 1, 1958. An investment of $400,000 was necessary to handle direct receipts of crude from Interprovincial.

I might add that that $400,000 was by Sun Limited; we do not know about Interprovincial.

The gap in the Sarnia Refinery's use of Canadian crude during the last quarter of 1957

also is worthy of comment. Growing out of the supply difficulties occasioned by the closure of the Suez Canal, Sun Oil entered into additional crude purchase contracts in the United States extending to December 31, 1957. Suez opened much earlier than anticipated. This, coupled with the general downturn in economic conditions, created a serious condition of crude over-supply for Sun Oil. Its efforts to be relieved of the additional crude purchase contracts it had undertaken were unavailing. To the extent of 4,000 barrels daily for a period of three months, Sun Limited contributed to the solution of this difficulty on the part of the parent company.

The 12,000 barrels daily of Canadian crude now being run at the Sarnia Refinery exceeds Sun Oil's net production in Western Canada by approximately 7,000 barrels per day; exceeds its economic allowable by approximately 5,000 barrels per day; and falls short of its Maximum Permissive Rate by approximately 2,300 barrels per day. As these figures indicate, Sun Limited's refining operations at Sarnia now provide a market for Canadian crude substantially exceeding the parent company's present production and close to the total quantity of Canadian crude that the parent company could produce under optimum conditions of demand.

Above the 12,000 barrels daily of Canadian crude now being utilized, Venezuelan crude is being purchased at a rate of 5,000 barrels per day to make up the balance of runs to stills at the Sarnia Refinery which presently total 17,000 barrels daily. This crude reaches the Sarnia Refinery from the U. S. Gulf Coast via the Mid-Valley, Buckeye and Sun Pipe Line Company Lines.

Before in fact commencing the run of the Venezuelan crude at the Sarnia Refinery, Sun Limited and Sun Oil made earnest efforts to trade this crude with eastern Canadian refiners in exchange for western Canadian crude which could be brought to the Sarnia Refinery via the Interprovincial line.

Sun Limited's Marketing Operations: Sun Limited markets in the Provinces of Ontario and Quebec. It operates pipe line terminals and warehouses at London and Hamilton, a pipe line and marine terminal and warehouse at Toronto, and marine terminals and warehouses at Cobourg, Morrisburg and Montreal. The Toronto terminal includes a plant, recently completed, which marked a further step in transferring to Canada operations formerly conducted in the United States. This plant now handles the blending, canning, barreling and packaging of motor lubricants, greases and

other products for the Canadian market. It represents an investment of $1,600,000,

Sun Limited also supplies the bulk plants of four distributors whose operations cover part of the Ontario market served by Sunoco automotive products. Including service stations and other outlets served by these distributors, Sun Limited markets automotive products at retail through a total of 755 outlets.

Efficient distribution of products by Sun Limited is greatly facilitated by the Sun-Canadian Pipe Line, already mentioned. This line, constructed at a cost of $5,400,000 carries products eastward from the Sarnia Refinery to the terminals at London, Hamilton and Toronto. It was built to deliver 17,500 barrels daily with a single pumping station at Sarnia. This capacity can be doubled with the addition of more pumping stations. Financing for the Sun-Canadian line was arranged through Canadian insurance companies and banks, with Sun Limited and Canadian Oil Companies Limited providing the customary guarantees.

Lubricating oils and industrial products which the Sarnia Refinery is not able to manufacture are brought in by water from the Sun Oil refinery at Marcus Hook, with the exception of limited shipments which must still be

made by rail into Montreal. The St. Lawrence River and the New York State Barge Canal both figure in the water movements of these products. Sun Limited also imports furnace oils by water and pipe line to handle peak winter requirements.

In all aspects of its business, the Sun organization has traditionally sought, through extensive plow-back of profits and the prompt abandonment of inefficient facilities and methods, to apply an aggressively competitive approach which has resulted in direct and tangible benefits to the public.

In the case of Canadian consumers, Sun Limited in April, 1954, adopted a pricing policy that brought a new element of competition to automotive gasoline markets in Ontario and Quebec. Prior to that date Sun Limited marketed one motor fuel. This fuel met the Ethyl Corporation specifications for premium grades. Since April, 1954, the identical product has been marketed continuously at prices competitive with the regular grades offered by others. Within 12 months of the change-over the average octane quality of regular-grade gasolines marketed by the industry in eastern Canada increased. In Montreal, for example, the increase was from 86.8 to 89.1 octane as determined by analyses published by the Du Pont Company.

Within the past few weeks Sun Limited has introduced a completely new system of custom-blending motor fuels which represents the most radical engineering advance in the technique of gasoline marketing in forty years. It, too, provides tangible benefits to motorists.

Canadian Production Activities: There is appended to this submission Table A which provides details on the producing and non-producing land holdings of Sun Oil in western Canada.

In summary, this table shows that in the Provinces of Alberta, Saskatchewan, Manitoba, British Columbia and the Northwest Territories, Sun Oil has non-producing land holdings through 4,343 leases covering 1,471,841 net acres, and 27 reservations covering 701,423 net acres.

In the Provinces of Alberta, Saskatchewan and Manitoba, the producing land holdings include 87 leases covering 42,611 gross acres and 19,064 actual producing acres. In addition, in Alberta, there are three reservations covering a net acreage interest of 26,157, of which 1,294 acres are capable of production.

Of the total of 4,430 leases, approximately 85 per cent, or 3,760, are freehold leases. The balance of 670 are Crown leases.

Sun Oil has acquired at Crown Reserve sales four proven and semi-proven leases in

Alberta totalling 1,119 acres and three of in Saskatchewan totalling 480 acres.

Appended to this submission on Table B is a detailed statement of Sun Oil's producing wells in western Canada. Summarizing the data on wells, it will be noted that Sun Oil has a net interest in 199.25 oil wells of which 16.88 net interest wells are shut in. Sun Oil also has a net interest in 14.64 gas wells, of which 14.25 net interest wells are shut in. Its net gas production is approximately 270,000 cubic feet daily.

Sun Oil's production and allowables from wells in western Canada are shown on Table C, attached. Net production of oil is approximately 5,000 barrels daily, contrasted with an economic allowable of approximately 7,000 barrels daily and a Maximum Permissive Rate of 14,387 barrels daily.

To complete the picture, Sun Oil has an overriding royalty interest in six oil wells producing 13 barrels per day and an overriding royalty interest in 13 gas wells in British Columbia that are shut in awaiting a market.

In 1955, Sun Oil joined with 15 other western Canadian oil producers in constructing the Westspur Pipe Line which connects Saskatchewan oil fields with the Interprovincial line at

Cromer, Manitoba. Sun Oil's interest in Westspur is 5 per cent.

Sun Oil has maintained an active interest in the development of the oil sands of the Athabasca region for the past five years. In 1952 two prospecting permits covering approximately 100,000 acres were obtained from the Alberta Government. They are located near the Bitumont Plant on the McMurray River north of the town of McMurray. In 1953 and 1954, Sun Oil expended $131,209 in core hole programmes and electric log interpretations to evaluate the amount of oil sand and overburden present. In addition, Sun Oil engaged in process research applicable to heavy oils which to date has exceeded $1,000,000 in expenditures.

In 1955, the permit for one of the two tracts was surrendered, and lease application was made covering 11,200 acres on the other.

During the course of its exploratory work on oil sands, Sun Oil negotiated with Abasand Oils Limited and consummated a contract covering their Mildred Ruth Lake properties, an area explored by the Dominion Government. The Sun Oil-Abasand Oils lease encompasses 3,840 acres, in which Sun Oil's interest is 75 per cent.

Sun Oil is continuing its research

into the economic development of the oil sands.

Sun's Canadian Objectives: On May 15, 1954, at ceremonies dedicating the Sarnia Refinery, the Chairman of the Board of Directors of Sun Oil, Mr. Joseph N. Pew, Jr., made this statement:

> "As Sun Oil Company Limited develops in its organization as an integrated operation, we do not look forward to it remaining forever as a subsidiary or daughter company to our parent Sun Oil Company. We confidently expect ere too many years have elapsed that it will emerge rather as a sister organization with common ideals and philosophies, but nevertheless as a completely independent entity, as befitting companies operating under different though kindred flags."

This is a clear statement of the intentions of the Sun organization. In providing risk capital for the development of Canadian oil and gas production, in investing in the Sarnia Refinery, in the Sun-Canadian Pipe Line, and in the further development of the distribution system, the Sun organization has worked toward the realization of the goals of integration and independence outlined by Mr. Pew. As a part of the Canadian economy the Sun

organization has been determined, on the basis of ability, to contribute to things that are good for Canada and to refrain from doing things harmful to Canada.

The number of employees of Sun Limited has increased from 197 in 1947 to 547 in 1957. Of the total number of employees, 92 per cent are Canadian citizens, 5 per cent are British citizens, 1 per cent are U. S. citizens, 2 per cent are citizens of other nations. Among the managerial group of 27 individuals, 24 are Canadian citizens, one is a British citizen, and two are U.S. ditizens.

Sun Oil's Canadian production activities disclose a similar picture. There were only three or four employees in 1945, whereas today there are 248, of whom 92 per cent are Canadian citizens. The managerial and technical group consists of 22 individuals, including 12 Canadians and 10 U.S. citizens.

It should be pointed out that the managerial groups referred to are exclusive of officers or directors. None of the present officers or directors of either Sun Oil or Sun Limited is a Canadian citizen.

Particularly within the past two years excellent progress has been made in shifting from the United States to Canada a great variety of functions and administrative controls. Some

of the shifts of functions have been made at a temporary sacrifice in economy of operations, but they were a necessary part of the deliberate programme of integration within Sun Limited which is now under way.

A major obstacle to integration and independence for Sun Limited continues to be the high operating losses incurred in the Canadian production activities of the Sun organization. It is not likely that individual stockholders would be content to invest in a separate undertaking for such a long pull without return as has been the case with the venture capital employed by Sun Oil in Canadian exploration and production on behalf of the ultimate benefit of Sun Limited.

Another obstacle is the fact that the capital requirement necessary to maintain Sun Limited's position as a refiner and marketer in the Canadian petroleum industry exceeds its present earning power. As of December 31, 1957, Sun Oil's investment in Sun Limited, together with earnings retained by Sun Limited, totaled $44,100,000. Sun Limited has not paid any dividends to the parent company; all funds have been reinvested for the further development of the business in Canada.

As the figures given indicate, the combined Sun Oil investment in Canadian production and in Sun Limited amounts to $100,600,000.

From the standpoint of the Sun organization as a whole, the investment made in Canada is regarded as sound and desirable, and in the best interests of the Company's stockholders. The foundation has been laid for a healthy Canadian company of

substantial value. Integration, which in the oil industry is both a consequence and a method of competition, is considered to be a fundamental necessity in building successfully upon that foundation. It is a management principle of the Sun organization to base integration on the ability of each segment to earn profits within the limits of standards established within the company. Giving Sun Limited the ability to compete effectively on this basis before the umbilical cord is cut has from the beginning been Sun Oil's objective. The date is drawing closer, but economic events of the past year and a half have served to delay its attainment.

MR. DUNLAP: COMMENTS ON SPECIFIC QUESTIONS and TERMS OF REFERENCE.

Markets for Canadian Crude: If Sun Oil could market today all of the crude oil which it is capable of producing in western Canada, its Canadian production operations would begin to show a profit and, other things being equal, it could proceed with the integration of production into the structure of Sun Limited as it has long planned. Therefore, an expanding market for Canadian crude is of direct interest to the Sun organization.

The growth in Canadian crude production and consumption over the past ten years, charted on graph paper, represents the type of curve that

hungry business men see in their dreams. Exports contributed significantly for the first time in 1955 to the graceful upward arch of the curve. Following the first quarter of 1957, exports declined and domestic consumption leveled off. This is not surprising since economic activity throughout history has invariably been marked by ups and downs. The leveling-off of the curve in Canada was not exclusive to this Nation, but was experienced to an even more severe degree in the United States. The business systems of the two countries are systems of profit and loss, and it has customarily been the periods of loss that have caused business men to bestir themselves to the degree that improved methods and advanced technologies ensued to the everlasting benefit of the public.

This comment is not made frivolously, but in the earnest conviction that if business men are to enjoy the rising opportunities afforded by the competitive enterprise system, they must stand ready to take the bitter with the sweet when a temporary contraction takes place. The game should not be played under one set of rules when the market is rising and under a different set when a decline sets in.

The recent faltering in the upward curve of Canadian crude oil production reflects, in our judgment, a temporary situation. It will pass and

the upward trend will resume, responding to precisely the same economic incentive that stimulated its growth to date, unless some unforseeable, artificial step is taken to deny that incentive.

It is a matter of record that the finding and production of crude oil in the United States is becoming more difficult and more costly, and unless another East Texas oil field or two should be discovered -- a possibility which we do not discount -- the long-term outlook is one of increasing accommodation to imported oil as a supplement to the deficiency anticipated in domestic production.

We have not engaged in an economic study of the short-range and long-range prospects for increasing utilization of Canadian crude within its economic market. We have examined the results of such studies presented to you in submissions by other companies and we are not prepared to quarrel with the conclusions. Forecasting is at best an inexact science, the outcome of which depends always upon assumptions. If certain forecasters who were in authoritative positions with complete access to all the "facts" had been correct, the oil resources of the United States, for example, would have been completely exhausted in 1929, or 1935, or 1942, depending upon which forecaster you listened to. Had their forecasts proved true the United States

market for Canadian crude oil would now be a large one, indeed.

Fundamentally, our long-run outlook is optimistic concerning the economic development and growth in population and demand throughout the whole of the great mid-continent area extending both north and south of the Canadian-U.S. border. This, plus the West Coast, seems to be the natural, economic market for the land-locked oil of western Canada.

Now, the question which appears to have been before you is not whether demand for Canadian oil will increase, but how fast it will do so. How importantly the speed of growth in Canadian crude oil production is related to the economic well-being of the Nation, as opposed to the importance of the low-cost availability of petroleum as an encouragement to accelerating per-capita consumption no matter where the petroleum comes from, is a question for economic analysis beyond our competence.

It seems clear to us, however, that the stimulation of production by such a means as confining consumption in Quebec and surrounding areas supplied by Montreal refineries to products made from western Canadian crude could have no other effect than to discourage increasing per-capita consumption through higher prices in that Province

and beyond. The economic implications of this proposal have been outlined in submissions which you have received from many others. Little purpose would be served by repetition. They make it evident that considerations beyond the realm of economics would have to be the justification for a favourable decision on thisproposal.

In the long term, we do not believe that Canada would benefit from the artificial barriers which would necessarily have to be erected to insulate western Canadian crude at Montreal against the competition of other crudes accessible to water transportation.

Equalization of Taxation: One point which has arisen during the course of your inquiry concerns the correction of inequities in the tax treatment of Canadian producers versus producers in Canada who are subject to the tax laws of the United States.

As matters now stand from a tax standpoing, it is to the overall advantage of Sun Oil to retain direct ownership and control over its exploration and production activities in western Canada as opposed to their integration into Sun Limited. This alone is not a sufficient factor to prevent such an integration, but it is certainly a significant consideration.

A point of discontent which seems to have

reached currency in some quarters in Canada these days concerns the extent to which United States capital is employed in Canadian resource development. The net effect of Canadian tax regulations is one which does not encourage Canadian citizens, private or corporate, to commit risk capital to these developments to the degree that the tax regulations of the United States provide a positive incentive to explore continuously.

Policies Concerning Pipe Lines:

Competition in the development and use of more efficient transportation facilities has produced substantial benefits for the ultimate consumers of petroleum products. Pipe lines, both crude and product, are built by oil companies for the same reasons that they build super tankers -- either to gain a cost advantage in relation to competitors, or to overcome a cost disadvantage in relation to competitors. In either case the ultimate consequence is lower cost of operation by all concerned in the affected market area, since all sellers must meet the price of the most efficient operator if they are to continue in business over the long term. Out of such lower costs come price advantages which consumers enjoy.

Unfortunately, concepts of the public interest in transportation which grew out of the early days when railroads had a monopolistic

control in the transportation field in fact, as well as in theory, have carried over into unnecessary and unrealistic regulation of crude oil and product pipe lines.

What needs to be understood is that crude oil and product pipe lines are as much an industry facility as an analog computer devoted to the analysis of oil field reservoirs. The public interest in these lines should be one of encouragement and of insuring safety and prohibiting nuisance. Regulation extending beyond this point results primarily in wasted motion, and in an economic activity every wasted motion must be paid for by someone, somewhere, sometime.

So far as Sun Limited's direct experience in pipe line operation is concerned, there were no extraordinary delays in obtaining the required approvals for construction of the Sun-Canadian Pipe Line and once construction had started the line was completed in 132 days over its 200 mile length.

Natural gas pipe lines developed in the United States under a set of circumstances different from those which traditionally surrounded crude oil and product lines and regulations applying to them have multiplied and compounded.

We have no specific suggestions concerning any current natural gas pipe line projects in Canada,

but looking to the future we wish to suggest that the avoidance of governmental controls is a desirable guiding principle in considering the public interest in pipe line projects of all types.

With respect to natural gas pipe lines, specifically, we would urge that in the development of governmental policy the door not be barred to recognition that a natural gas pipe line can be constructed purely as a carrier, with buyers at one end dealing directly with sellers at the other, each side negotiating in light of the circumstances which it confronts.

Buyers who are local distributing companies are already under utility regulation, a fact which would be taken into account in negotiations from their standpoint. Public interest in industrial buyers is minimal, and in any event the industrial buyer will negotiate on the basis of process requirements and relative fuel costs, with competition in his own markets requiring him to make decisions in the public interest -- i.e., favouring lowest cost. Gas producers are subject to the laws and regulations which apply to their particular business. Financing for a pipeline under this arrangement could not be obtained unless it represented a sound business proposition. Consequently, it seems to us that adequate protection of the public interest would exist, permitting continued application to natural

gas pipe lines of the limited Dominion regulations under which crude oil and product lines have been encouraged and have operated for the public good.

On the question of the exportation of natural gas, our only observation is that if it is logical to seek export markets for Canadian crude oil, which we believe it is, then it would seem equally logical to seek export markets for Canadian natural gas.

MR. ASKEW: National Energy Board:

Throughout the world for the past 30 years there has appeared a tendency to abandon the common philosophy under which the English-speaking nations achieved greatness. That philosophy was grounded in religious principles and the rule of law. Its principal tenet was individual liberty. In economic affairs, the practical expression of this philosophy was to be found in the free market system with the opportunity it provided for individual freedom of choice.

The flight from this philosophy has been characterized by a growing effort to place the planning of the economic affairs of men in the hands of government, and increasingly to substitute rule by agencies, bureaus and boards for rule by law. The process continues, despite repeated evidence from history, extending from the days of Confucius to modern times, that rather than contribute to the material well-being of the people, it tends to dull and eventually to snuff out the very inventiveness, ingenuity and enterprise upon which economic progress

is based.

It is upon these considerations that we urge a long, hard look at the proposed National Energy Board and the functions and authorities to be assigned to it. No matter how innocuous may their charters seem, such agencies have been shown by history to yield to irresistible pressures to extend their activities, compound their regulations, and confuse those over whom they have jurisdiction. They tend to become foci for every unrest, and soon are engaged less in protecting the people than in equalizing competitive capabilities. In this process they negate inherent economic advantage and deny its benefit to people.

CONCLUSION. We have sought to provide a factual recital of the activities, with underlying background, of Sun Limited. Our purpose was to furnish information on the origin, development and aims of one Canadian subsidiary of a United States oil company in the belief that, as an example, it would serve to give the Royal Commission on Energy a more complete understanding of the considerations faced by such a company and the results it has achieved under existing laws, regulations and policies affecting the Canadian petroleum industry.

We have sought also to express our considered judgment on specific questions and terms of reference in the charge to the Royal Commission, and we will

be pleased to answer any further specific questions to the best of our knowledge and ability.

Our concluding thought is that the petroleum industry in Canada has experienced in the past ten years one of the most remarkable growths ever recorded by any industry anywhere. Great impetus to the discovery and development of Canadian oil has, of course, been given by the positive encouragement from a tax standpoint which the laws of the United States afford. Adoption of comparable tax treatment by the Canadian Government would help not only to expand the incentive to discover, develop and produce Canadian oil, but would tend over the years to shift more of the emphasis of ownership and control in this activity into Canadian hands.

Aside from this, the spectacular growth of the Canadian petroleum industry has been achieved under Canadian laws, regulations and policies which substantially exist today. These, in our judgment, are deserving of study, for if they have encouraged so much in so short a time are they not worthy of continuance?

TABLE "A"

SUN OIL COMPANY Producing and Non-producing Land Holdings in Western Canada

As of December 31, 1957

NON-PRODUCING

	Leases	Net Acres	Reservations	Gross Acres	Net Acres
Alberta	1,004	556,291	16	1,419,239	243,861
Saskatchewan	2,084	567,939	2	14,041	14,041
Manitoba	1,213	331,282	2	203,692	203,692
British Columbia	42	16,229	1	108,324	108,324
Northwest Territories	-	-	6	375,730	131,505
Totals	4,343	1,471,841	27	2,121,026	701,423
					1,471,841
Total Net Non-Producing Acreage					2,173,264

PRODUCING

	Leases	Gross Acres	Actual Producing Acres	Reservations	Net Acreage Interest	Net Producing Acres
Alberta	33	28,441	9,540	3	26,157	1,294
Saskatchewan	39	10,748	7,382			
Manitoba	15	3,422	2,142			
British Columbia	-					
Northwest Territories	-					
Totals	87	42,611	19,064	3	26,157	1,294
						19,064
Total Net Producing Acreage						20,358

TABLE "B"

SUN OIL COMPANY Producing Wells in Western Canada -As of May,1958.

OIL WELLS

Province	Producing Gross	Producing Net	Shut-In Gross	Shut-In Net	Total Gross	Total Net
Company Operated - Working-Interest Wells						
Alberta	52	46	-	-	52	46
Saskatchewan	87	86.61	8	8	95	94.61
Manitoba	47	47	6	6	53	53
British Columbia	-	-	-	-	-	-
TOTAL	186	179.61	14	14	200	193.61
Outside Operated - Working-Interest Wells						
Alberta	2	.76	4	1.38	6	2.14
Saskatchewan	34	2.00	-	-	34	2.00
Manitoba	-	-	-	-	-	-
British Columbia	-	-	3	1.50	3	1.50
TOTAL	36	2.76	7	2.88	43	5.64
GRAND TOTAL	222	182.37	21	16.88	243	199.25

GAS WELLS

Province	Producing Gross	Producing Net	Shut-In Gross	Shut-In Net	Total Gross	Total Net
Company Operated - Working-Interest Wells						
Alberta	-	-	11	6.50	11	6.50
Saskatchewan	-	-	-	-	-	-
Manitoba	-	-	-	-	-	-
British Columbia	-	-	-	-	-	-
TOTAL	-	-	11	6.50	11	6.50
Outside Operated - Working-Interest Wells						
Alberta	1	.06	21	7.75	22	7.81
Saskatchewan	18	.33	-	-	18	.33
Manitoba	-	-	-	-	-	-
British Columbia	-	-	-	-	-	-
TOTAL	19	.39	21	7.75	40	8.14
GRAND TOTAL	19	.39	32	14.25	51	14.64

TABLE "C"

SUN OIL COMPANY Production and Allowables from Wells in Western Canada - As of May, 1958

Figures in Barrels per Day

	PRODUCTION		ALLOWABLES	
Province	Gross	Net	Sun's Net Economic	M.P.R.
Company Operated - Working-Interest Wells				
Alberta	1,735	1,345	1,825	4,970
Saskatchewan	3,310	2,865	3,400	5,925
Manitoba	850	740	1,600	3,000
British Columbia	-	-	-	-
TOTALS	5,895	4,950	6,825	13,895
Outside Operated - Working-Interest Wells				
Alberta	18	16	62	72
Saskatchewan	82	71	75	120
Manitoba	-	-	-	-
British Columbia	-	-	75	300
TOTAL	100	87	212	492
GRAND TOTAL	5,995	5,037	7,037	14,387
Overriding Royalty Oil Wells				
Alberta		7		
Saskatchewan		1		
Manitoba		5		
TOTAL		13		

NATURAL GAS PRODUCTION

Sun's net gas production, all from outside operated working-interest gas wells, is approximately 270 MCF per day.

THE CHAIRMAN: Thank you very much, indeed, Mr. Askew and Mr. Dunlap. I think that probably the best thing to do would be to have a ten-minute break, for I know there will be questions that the Commission would like to ask. We will adjourn for ten minutes, gentlemen.

---A short recess.

THE CHAIRMAN: Gentlemen, we will resume the hearings. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman. Mr. Askew, I would like you to turn to page 18. Mr. Askew, I assume you have read the record of the transcript of this Commission?

MR. ASKEW: Some of them, Mr. Pattillo.

MR. PATTILLO: Well, let us deal with this Venezuela crude. Would you please tell us what companies you or the present company have approached and requested that they exchange Venezuela crude delivered at Montreal for Western Canada crude delivered at your plant at Sarnia?

THE CHAIRMAN: Mr. Counsel, I would just like to say this to Mr. Askew and his colleagues. If they had any legal advice which intimated to them in any way that they could come within the provisions of the Combines Act, I do not know whether we have a power or not to say that what they might say would not be incriminating under any

provision of that statute, but if they have received such advice I think you should probably withdraw your question.

MR. PATTILLO: I would, Mr. Chairman, but Mr. Macdonald, the Commissioner of the Combines Act, comes from Nova Scotia too, and I would be willing to give him security. I think this was an attempt at a business transaction, and we would like to know, in view of the information that we have been given -- and if you are not free to tell us, simply say so.

MR. ASKEW: Could we consider that and report to you later in writing?

MR. PATTILLO: Yes, to the Chairman. But in any event the attempt has been made.

THE CHAIRMAN: I will put it in other words. I agree with Mr. Pattillo that the information in that paragraph in your brief was very illuminating as far as the Commission is concerned, but I really feel that we should not put you in a position of getting into trouble.

MR. ASKEW: Thank you, sir.

MR. PATTILLO: The only thing - -

MR. FRAWLEY: May I interrupt, Mr. Pattillo? Mr. Chairman, if, as a result of that question and answer, Mr. Askew reports in a letter to you, I would hope that you would not regard that letter as sufficiently confidential to be kept from the Oil and Gas Conservation Board in Alberta that has to

do with the nominations for Alberta crude, and my respectful submission would be that we would be very much interested in information of that kind.

THE CHAIRMAN: Mr. Frawley, I would hate to give you any undertaking in that regard, because if it is filed with me I would regard it as confidential. If, on the other hand, the answer is such, it would take a lot to prevent me from communicating it to the Government of Alberta.

MR. PATTILLO: The only thing I would like to ask you is this. Having found that your efforts to make an exchange were fruitless, what is the comparative laid-down cost in Sarnia of Venezuela crude as opposed to Canadian crude?

MR. ASKEW: The figure that I have here, Mr. Pattillo, is: total laid-down cost of Venezuela crude in Sarnia, Canadian funds, $3.3528 per barrel.

MR. PATTILLO: And Canadian laid-down in Sarnia?

MR. ASKEW: $3.3722.

THE CHAIRMAN: That is over the Interprovincial Pipeline?

MR. ASKEW: That is over the Interprovincial. The cost of the Venezuela is as we described in the brief.

MR. PATTILLO: 2 cents less?

MR. ASKEW: That is right.

MR. PATTILLO: Now, when you put that price of Venezuela crude at $3.35, let us examine the components of it. Are you talking of cost of production of Sun Oil's own crude plus transportation, or are you talking of posted price?

MR. ASKEW: Posted price.

MR. PATTILLO: Plus transportation?

MR. ASKEW: That is right.

MR. PATTILLO: Will you please break that down for us?

MR. ASKEW: $2.70. Incidentally, that is not a Sun posted price; that is the posted price for Venezuela. Tanker freight to the Sun station, 20 cents a barrel.

MR. PATTILLO: Where is that Sun station?

MR. ASKEW: In the Gulf. The Gulf Coast. 20 cents freight from Peurto La Cruz to the Sun Station in the Gulf.

MR. PATTILLO: Where is the Sun station in the Gulf?

MR. ASKEW: Beaumont, Texas.

MR. PATTILLO: From Texas the pipeline tariff is $.495, or 49 1/2 cents. That is with a profit on the pipeline operation?

MR. ASKEW: I cannot answer that, Mr. Pattillo, but I would assume so.

MR. PATTILLO: It would be the first pipeline we have heard that did not. Which

pipeline does that go over?

MR. ASKEW: The Mid-Valley Pipeline. That was the system we described. That does not add up; we have more.

M/jp
F
5/7

THE CHAIRMAN: We are a cent and a half or more short.

MR. ASKEW: Well, there is a pipe line allowance in there of .033 dollars and a terminaling charge of 5 cents per barrel. The figures I am giving you now are all U.S. dollars, if you convert them to Canadian the total of 3.78 U.S. equals 3.35 Canadian.

MR. PATTILLO: A portion of that pipe line cost would be over what I call the Susquehanna pipe line?

MR. ASKEW: Well, there is no more Susquehanna pipe line, it is now the Sun pipe line.

MR. PATTILLO: That is what you call it now, I know. Now, can you tell me just how much of that 49 cents that is laid down at Sarnia is involved in the costs from Sarnia to Toledo?

MR. ASKEW: I do not think we have it, Mr. Pattillo, I will try to get it for you.

MR. PATTILLO: Would you do that and send it to the Chairman?

MR. ASKEW: Yes, that is Toledo to Sarnia?

MR. PATTILLO: Yes. Now, as I understand your brief the only refinery of your parent organization that is in proximity to the interprovincial pipe line is the refinery at

Toledo with a capacity of 95,000 barrels per day?

MR. ASKEW: That is correct.

MR. PATTILLO: Do you know whether or not consideration has ever been given to using Canadian crude at Toledo?

MR. ASKEW: I do not know, but my opinion is that I do not think so - I do not know.

MR. PATTILLO: Can you tell me the source of the crude that is being used at Toledo?

MR. ASKEW: It is Gulf Coast - Southwest crude.

MR. PATTILLO: Is any of it Venezuelan crude?

MR. ASKEW: No, sir.

MR. PATTILLO: Is your parent company's affiliate in Venezuela which began production in April of this year only shipping to Sarnia?

MR. ASKEW: To my knowledge at this time that is correct.

MR. PATTILLO: Now, if I may ask you to turn to - I will come back to these other pages later but I am intrigued - I will ask you to turn to page 29, but before I ask you any questions regarding that page and the following pages what is the maximum capacity of the Sarnia-Toledo pipe line barrels per day?

MR. ASKEW: I think it is

1,000 barrels per hour which would be about 24,000 barrels.

MR. PATTILLO: I have only met the gentleman once, but am I correct in thinking that Mr. Pew wrote this part of the brief starting at page 29?

MR. ASKEW: Mr. Pew? He did not write it.

MR. PATTILLO: Now, in the first paragraph on page 29:

> "If Sun oil could market today all of the crude oil which it is capable of producing in Western Canada, its Canadian production operations would begin to show a profit and, other things being equal, it could proceed with the integration of production into the structure of Sun Limited as it has long planned."

What other things are you talking about?

MR. ASKEW: The other things cover quite a few, the refined products situation in Canada and everything advancing as we have planned financially and otherwise.

MR. PATTILLO: What I am thinking of, that is a state of facts, that is not a question of equity, is it?

MR. ASKEW: I presume so.

MR. PATTILLO: But that is what you

mean?

MR. ASKEW: Yes.

MR. PATTILLO: Given a certain state of facts if you could sell your Canadian production then you could proceed with your idea of an integrated Canadian company?

MR. ASKEW: That is right.

MR. PATTILLO: I am very interested in this about the growth in Canadian crude production and consumption over the past ten years, charted on graph paper, represents the type of curve that hungry business men see in their dreams. What about hungry Governments?

MR. ASKEW: I see what you mean.

THE CHAIRMAN: What is good for the gander is good for the goose.

MR. FRAWLEY: Who are the goose?

THE CHAIRMAN: I won't pursue the analogy any further.

MR. PATTILLO: I thought it was too good to pass up. Would you please turn to page 32:

> "It seems clear to us, however, that the stimulation of production by such a means as confining consumption in Quebec and surrounding areas supplied by Montreal refineries to products made from Western Canadian crude could have no other effect

than to discourage increasing per capita consumption through higher prices in that province and beyond. The economic implications of this proposal have been outlined in submissions which you have received from others. Little purpose would be served by repetition. They make it evident that considerations beyond the realm of economics would have to be the justification for a favourable decision on this proposal."

Now, Mr. Askew, whose economics are you talking about?

MR. ASKEW: Well, we have examined superficially some of the briefs that have been submitted to this Commission and we would not quarrel with their figures because we believe too that the price of products under these conditions would have to be increased in the Montreal area.

MR. ASKEW: Well, I have examined superficially some of the briefs that have been submitted to this Commission, and we wouldn't quarrel with their figures, because we believe, too, that the price of products under those conditions would have to be increased in the Montreal area.

MR' PATTILLO: When you make this statement, are you approaching it from the standpoint of the approach that was made by your company when you decided you were going to take your Venezuelan production of crude into Sarnia? In other words, it was good economics for your company to do so?

MR. ASKEW: Would you repeat that question?

MR. PATTILLO: Yes. (Question repeated).

MR. ASKEW: I think I understand it, Mr. Pattillo. I was hoping you would rephrase it.

THE CHAIRMAN: I will rephrase it. Were you looking to the major profit from the utilization of your own crude, or could you take other crude and so make a fair profit without having to raise the price to the consumers?

MR. ASKEW: Let me answer it this way: The running of the Venezuelan crude in Sarnia is part of an overall picture; that is the parent company's own production and transporting to Sarnia under facilities mostly owned by the company.

MR. PATTILLO: What you are saying by

that statement is that the parent company has made a profit on production, it has made a profit on transportation, and it has put it in Sarnia at a laid-down cost at posting which is less than the laid-down cost at posting of Alberta crude; is that correct?

MR. ASKEW: I can't say to what extent they made a profit because I don't know. You are saying they have made a profit. I assume they have, but I don't have those facts available.

THE CHAIRMAN: Do they pay income tax, Mr. Askew?

MR. ASKEW: They certainly pay income tax.

MR. PATTILLO: And you would agree, Mr. Askew, from your experience in the oil business that the finding and development cost in Venezuela is not too high yet?

MR. ASKEW: So I have read, but I have no experience that way.

MR. PATTILLO: It wouldn't equal $2 a barrel?

MR. ASKEW: I don't know.

MR. PATTILLO: Well, we have evidence that it doesn't. When you were considering trying to trade that crude, Venezuelan crude for Canadian crude produced in the West, coming over the Interprovincial system, what was motivating that attempt?

MR. ASKEW: In our attempt -- probably there are two motivating things there: one was to attempt to get the Sarnia Refinery on 100 per cent Canadian crude; and the other was to find a market for the company's Venezuelan crude.

MR. PATTILLO: And were you told by refiners in Montreal that they wouldn't exchange because they were bringing their own company's crude into Montreal?

MR. ASKEW: We were not told why, but I could guess why.

MR. PATTILLO: Guess why

MR. ASKEW: Take one company and say they agree on an exchange of 5,000 barrels and they have production in Western Canada, they wouldn't benefit by 5,000 barrels.

MR. PATTILLO: So from the company's economics it wasn't going to be a profitable deal for them?

MR. ASKEW: It may not be. I was not told why.

MR. PATTILLO: In your paragraph on page 32 you say:

> "The economic implications of this proposal have been outlined in submissions which you have received from many others."

Now, we have difficulty in understanding these "economic implications". Did you, as a man in

the oil business for many years, find that very easy to understand because it meant the economics of the parent company?

MR. ASKEW: Mr. Pattillo, I don't think the economics in the petroleum industry are easy to understand.

MR. PATTILLO: Would you explain it as a person who has had a great opportunity to understand it?

MR. ASKEW: Very simply, I think I can: to transport Western Canadian crude to Montreal, laid down at Montreal, at a higher cost than other crudes, therefore I think the profit would have to be higher to justify their return.

MR. PATTILLO: Let me put this to you: supposing a western producer was prepared to reduce his price so that the cost of transportation plus the posted price equalled the posted price of Venezuelan or Middle East crude, plus the cost of transportation laid down in Montreal. From your experience in the oil business and knowing, as you do, the operations of the parent or affiliate companies of the refiners in Montreal, if you had a free choice, which would you continue to use?

MR. ASKEW: In other words, if I could lay Western Canadian crude in Montreal at the same price as other crude?

MR. PATTILLO: Yes.

MR. ASKEW: Which would I use?

MR. PATTILLO: Yes -- other crude which was produced in Venezuela or the Middle East by one of your affiliate companies?

MR. ASKEW: I don't think I should answer that, Mr. Pattillo.

MR. PATTILLO: All right, Mr. Askew.

MR. COMMISSIONER HOWLAND: You would use your own Western production first, anyway?

MR. ASKEW: We certainly would.

MR. PATTILLO: Mr. Askew, at the bottom of page 34 -- perhaps you can give me a little help on these pipe lines -- you say:

> "What needs to be understood is that crude oil and products pipe lines are as much an industry facility as an analog computer devoted to the analysis of oil field reservoirs."

Now, do you use an analog computer as a facility for the oil industry on the basis that it must return a profit?

MR. ASKEW: I will let Mr. Dunlap answer that.

MR. DUNLAP: I think the implication there is an analog computer is something that is essential to the operation of your reservoir. It's a facility. A tool.

MR. PATTILLO: Is it an essential thing? If you are using a pipe line in the sense that it is essential to move the oil from the production field to the market, I understand the word "facility". Is that the sense in which you are using it?

MR. DUNLAP: You can do the same computing with an adding machine or with an engineer and a slip stick as you can move oil by rail or by buckets. An analog computer is a more readily useable instrument to make your reservoir studies so a pipe line is a better means of transporting your crude.

MR. PATTILLO: I appreciate that Mr. Dunlap, but that is not what I am driving at. I am thinking when you have a facility - -

MR. DUNLAP: I think I understand what you are driving at, but that was the intention of this phraseology.

MR. PATTILLO: Do you agree with me when you have a facility you do not necessarily expect to make a profit out of it?

MR. DUNLAP: You would like to make a profit, but you do not necessarily do so.

One thing may contribute to another.

MR. PATTILLO: It is not correct to describe something as a facility and at the same time say that you should make a profit?

MR. DUNLAP: I think there are many facilities; we use automobiles as a facility in our business. We do not attempt to make a profit off the investment of the use of that vehicle.

MR. PATTILLO: Now having got that definition of facility out of you Mr. Dunlap, perhaps you might turn to the next page where you say:

> "We have no specific suggestions concerning any current natural gas pipe line projects in Canada, but looking to the future we wish to suggest that the avoidance of Governmental control is a desirable guiding principle considering the public interest in pipe line projects of all types."

Now, I would like to put this to you, and I am directing this question to oil pipe lines, product pipe lines, crude and product pipe lines, oil pipe lines: if those pipe lines are to be deemed a facility for moving products, either crude or finished to market or to the refinery, in the light of your experience of the profit made by these pipe lines in North America why do you suggest that there should be no Government regulation of them?

MR. ASKEW: I will try to answer that Mr. Pattillo. It is the history of Government regulations that we are acquainted with in the U. S. that we believe has hindered, and hindering the pipe line business. That is one reason that we would say to avoid it is the best procedure.

MR. PATTILLO: I will put this to you now: If interprovincial pipe lines is the facility for the oil companies who are operating the refineries in Ontario, and in the Mid-west points between Edmonton and Sarnia, and the cost which they tell us is the cost of moving oil to Sarnia is 32 cents, what do you in your experience in the oil business say is the difference between the tariff you are paying and the cost as representing something that perhaps requires Government regulation?

MR. ASKEW: Are you talking about the difference in cost in the tariff that is paid?

MR. PATTILLO: Yes?

MR. ASKEW: Or are you inferring if we think it is too high that we are going to ask the Government to intervene?

MR. PATTILLO: I am talking about the two statements that I have referred to, one on page 35 and the other one, the earlier page when you talk about the pipe line being a facility, and now I am putting to you what interprovincial's

evidence was as to the cost and you know what the tariff is, now I am asking you whether in view of all those facts you still consider that there is no necessity for Government regulations of oil pipe lines?

MR. ASKEW: We don' think there is, other than health and safety.

MR. PATTILLO: Now, there is a wonderful paragraph on page 37 with which I personally entirely agree, but my views have nothing to do with this matter. I would like to read it:

"Throughout the World for the past 30 years there has appeared a tendency to abandon the common philosophy under which the English speaking nations achieved greatness. That philosophy was grounded in religious principles and the rule of law. Its principal tenet was individual liberty. In economic affairs, the practical expression of this philosophy was to be found in the free market system with the opportunity it provided for individual freedom of choice."

Mr. Askew, I ask you as a person who has been engaged in business for a number of years, haven't you found as a matter of principle that whenever your company or your industry is in trouble of one sort or another you rush off to the Government?

MR. ASKEW: No sir, I haven't

found that to be.

MR. PATTILLO: The oil industry is unique?

MR. ASKEW: No, now wait a minute, let me extend that a little bit. Usually when we have to go to the Government it is because the Government has imposed something on us that has hurt us; on the industry that has hurt us.

MR. PATTILLO: You read this submission that has been put before this Commission by some members of your industry wherein the producing end of the business suggests that a pipe line should be brought to Montreal and Government support should be given?

MR. ASKEW: Yes sir, I have read it.

MR. PATTILLO: You think they have been misguided?

MR. ASKEW: Let us say we do not agree with it.

MR. PATTILLO: You think that would be in their own interests as well as the interest of the industry if they stayed away from such a proposal until such time as the economics permitted the line to be built by the industry itself, is that it?

MR. ASKEW: Let me answer it another way; we think a system of free enterprise will take

care of it.

MR. PATTILLO: Now on page 39 you have the statement which I would like to read to you; you are talking about the difference between the tax laws in the United States and Canada and then you make this statement:

> "Adoption of comparable tax treatment by the Canadian Government would help not only to expand the incentive to discover, develop and produce Canadian oil, but would tend over the years to shift more of the emphasis of ownership and control in this activity into Canadian hands."

I wonder if you would care to expand that?

MR. ASKEW: Well, with more favourable tax treatment on the Canadian producer it gives him more of an incentive to explore continuously. He is going to earn a profit. People -- Canadians -- will invest in his company.

MR. PATTILLO: You are suggesting that the Canadian Government, as opposed to the United States Government, is taking too large a percentage of the profit, or not allowing you to keep as much liquid funds as the United States Government would permit under its laws?

MR. ASKEW: That is as I understand it. I am not a tax man, by any means.

MR. PATTILLO: But that is ---

MR. ASKEW: As I understand it.

MR. PATTILLO: If you might turn back to page 2 -- I am sorry that I have this a bit out of line, but I was so intrigued by what began on page 29. You say there:

> "About 80 per cent of Sun Oil's total crude oil production comes from Texas and Louisiana."

As a result of that, is Sun Oil one of the companies that has been taking a strong position in favour of quotas in the United States?

MR. ASKEW: In favour of quotas?

MR. PATTILLO: Yes.

MR. ASKEW: They have not taken a stand

in favour of quotas.

MR. PATTILLO: They have taken one against them?

MR. ASKEW: They have.

MR. PATTILLO: And as I understand your brief, the only place where Sun Oil has had foreign production outside the North American Continent has been in Venezuela, and that was only commencing this year?

MR. ASKEW: That is right.

MR. PATTILLO: Let me see if I can try to get the chronology of this development at Sarnia of your company. As I understand it, in 1946 you selected the location. I think you agree with me. In 1949 the first decision to build the Interprovincial came in. That was when it was begun. In 1950 you built what I call the Susquehanna pipe line to put products down for Polymer. Now, who gained the advantage of that line as opposed to bringing the products in by other means -- Sun or Polymer?

MR. ASKEW: I cannot answer that, but I assume that both of them did. I know that the price to Polymer was reduced considerably as a result of savings on transportation.

MR. PATTILLO: It is my understanding that in 1952 the decision to extend the Interprovincial pipe line from Superior to Sarnia was made

and the financing was done in the late fall of that year, and the line was built in 1953. When was the refinery of Sun at Sarnia commenced?

MR. ASKEW: It went on stream in November 1953, and I assume it took about one and a half years to two years to build. I am not quite sure when they broke ground.

MR. PATTILLO: So that the Interprovincial pipe line to Sarnia was down and running, and my recollection is that it was running in July 1953, before your refinery went on stream.

MR. ASKEW: That is true, if it began in July 1953.

MR. PATTILLO: If you built the Susquehanna pipe line to put the products in for Polymer, and that was the object of that deal, why did you not take Canadian crude then?

MR. ASKEW: I think if you go back to our brief you will see that the line was built for two reasons. One was to get the products to Polymer; the other to get crude to Sarnia.

MR. PATTILLO: Yes, but as I understand it from your brief the parent companies did not buy a substantial interest in that big line coming up to Toledo until ---

MR. ASKEW: 1949. It is on page 10.

MR. PATTILLO: In 1949 you entered into that arrangement with Standard Ohio to build that

line, but it was in 1952 that they bought a nine per cent interest in Mid-Valley?

MR. ASKEW: That was Gulf.

MR. PATTILLO: I am sorry. That was Gulf. I misread that. So you built the line in 1949?

MR. ASKEW: Yes, that is right.

MR. PATTILLO: In any event your decision to use United States crude was predicated on the fact that your parent company had an interest in this pipe line and had its production in Louisiana and Texas? I am not suggesting there is anything wrong in that, Mr. Askew.

MR. ASKEW: I just want to get the sequence straight.

MR. PATTILLO: Well, all I want to get cleared up is the answer to that last question: that the decision to move United States crude to Sarnia in the early days of the refinery at Sarnia was predicated on your parent company's production in Texas and Louisiana and its interest in the pipe line to Toledo?

MR. ASKEW: That is right. Do not overlook the fact that the pipe line was run mainly for the benefit of the Toledo refinery.

MR. PATTILLO: That is right. And what was the laid-down cost, using the Texas post price, when your refinery in Sarnia came on stream as

opposed to the Interprovincial laid-down cost at Sarnia at that date?

MR. ASKEW: I cannot give you that. We do not have it. We can give you current costs, but not on those dates.

MR. PATTILLO: Well, would you give us current costs first?

MR. ASKEW: Laid-down costs in Sarnia of United States crude?

MR. PATTILLO: Yes.

MR. ASKEW: In Canadian funds, $3.7806. That is for about, I think, 30 or 40 Calgary crude.

MR. PATTILLO: Translated into equivalent crude with Redwater, it would be what?

MR. ASKEW: I do not have that figure. I think it would be higher.

MR. PATTILLO: Would you mind getting and supplying to the Chairman the situation when your refinery commenced? That would be November 1953.

MR. ASKEW: Yes, sir, we will do that.

MR. PATTILLO: And what were the differentials at that time?

THE CHAIRMAN: Mr. Askew, did you say you thought that the Interprovincial oil would be higher than the United States, or the United States would be higher?

MR. ASKEW: On the current costs, I think the United States would be higher.

MR. PATTILLO: $3.78, as opposed to the other one, which I think is $3.37.

MR. FRAWLEY: $3.37. What is the API on your United States crude?

MR. ASKEW: 39.4. Sulphur of .34.

MR. FRAWLEY: You have not got the APIs on the Redwater handy?

MR. ASKEW: No, sir. We have it on the Interprovincial mix. I do not know the composition.

MR. FRAWLEY: What is it on the Interprovincial mix?

MR. ASKEW: API gravity of 36.6. Sulphur content of .64 per cent.

MR. PATTILLO: I notice that the time is getting late, and we have had a long afternoon. Would it be inconvenient for you gentlemen to stay over until tomorrow morning?

MR. ASKEW: It sure would be inconvenient, but we will do so if necessary.

THE CHAIRMAN: Let us finish it.

MR. PATTILLO: There are so many people that may want to ask you a question.

MR. ASKEW: We came in from Calgary specially for this hearing and we are due back tomorrow. We could stay over until tomorrow, but

[illegible]

[illegible]

we would prefer not to do so.

THE CHAIRMAN: If counsel agree, we could have a five-minute adjournment and then carry on.

MR. PATTILLO: I am perfectly willing to do that and carry on.

MR. FRAWLEY: If there is something in Calgary that needs these gentlemen tomorrow, I must oblige.

MR. PATTILLO: The laid-down price is $3.37.

THE CHAIRMAN: We will adjourn for five minutes, gentlemen.

---Short recess.

THE CHAIRMAN: We will now resume the hearings.

MR. PATTILLO: I have just a few more questions. First, why is Venezuela crude coming to Sarnia rather than stopping at Toledo which would be closer to the source of supply?

MR. ASKEW: The main reason, Mr. Pattillo, is the import restrictions in the States, but may I go a little further than that, it would not go to Toledo, it would go to Marcus Hook if import restrictions were not there.

MR. PATTILLO: Now, when you told us what the cost is at Sarnia of Venezuela crude, is that the actual cost to your company or is there any discount?

MR. ASKEW: It is the actual cost to Sun Limited.

MR. PATTILLO: Sun Limited?

MR. ASKEW: Yes, sir.

MR. PATTILLO: This rumour that we have heard that you are getting a discount of some cents per barrel is not true?

MR. ASKEW: That is not true. I would like to get such a discount if it were legal.

MR. PATTILLO: Well, we have accomplished a lot of things since we began but I do not think I can arrange that for you. What was the motivating factor that made your company decide to increase

its production of Canadian crude at Sarnia from 6,000 to 12,000 barrels in June of this year?

MR. ASKEW: Well, it is cheaper than the U.S. crude that we were running.

MR. PATTILLO: I think those are all the questions I have, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr. Pattillo. Mr. Frawley?

MR. FRAWLEY: Mr. Dunlap, I was quite interested in your statement on page 6 in which you say:

"By the end of a four-year period, Sun Limited had expended on leasing, exploration and drilling activities the equivalent of approximately seven years of its anticipated net earnings. It was abundantly clear that Sun Limited could not afford a production department on such a scale"..

Then you go on and say that the apparent company, Sun Oil, took it over and organized a new division of the parent company's production department with you in charge?

MR. DUNLAP: Yes.

MR. FRAWLEY: Now, in the light of that and in that context, you were good enough to give me some figures and using the month of May, 1958 you were selling 5,111 barrels against a producibility

of 13,895 barrels or 38 per cent?

MR. DUNLAP: Correct.

MR. FRAWLEY: So you had a shut-back of 62 per cent in your particular case?

MR. DUNLAP: Right.

MR. FRAWLEY: And that is all right for Sun Oil but Sun Limited did not feel it should or could carry a situation like that, that is a fair summing up of it?

MR. ASKEW: That is correct.

MR. FRAWLEY: Well, in the light of that does that not exactly demonstrate the difficulty that a small Canadian independent has to combat and to weather the storm in this restricted output of oil in Alberta? Do you not agree that is the crux of the situation?

MR. ASKEW: I would agree that they have their problems.

MR. FRAWLEY: Yes, and it is a very much bigger problem for the small independent or even for the larger independent than for Imperial which is standard of New Jersey, B.A. which is Gulf, McColl-Frontenac which is the Texas Company. It is not such a big problem for them.

MR. ASKEW: It is much easier for the larger companies.

MR. FRAWLEY: To weather a storm of that kind?

MR. ASKEW: Yes.

MR. FRAWLEY: Now, following up with that you say that pipelines are industry facilities and so much so are they industry facilities that the public interest in crude oil and pipelines should be one of encouragement and insuring safety and prohibiting nuisance. Now, do you feel or is it your considered opinion to this Commission that that is the limit of the public interest in a crude oil pipeline?

MR. ASKEW: Mr. Frawley, are you talking government controls?

MR. FRAWLEY: I am talking about, let us call it government regulation and you think those three things that you have pointed out in your brief, that that is the limit and the extent to which a public opinion should extend?

MR. ASKEW: Yes.

THE CHAIRMAN: The brief said "public interest".

MR. FRAWLEY: Public interest should be one of encouragement and insuring safety and prohibiting nuisance, in other words, you define the extent of public interest.

MR. ASKEW: That is right.

MR. FRAWLEY: And you think that is the sum total of the public interest that should be shown or manifestedç

MR. ASKEW: Yes, sir.

MR. FRAWLEY: Well, now, a crude oil pipeline is a common carrier, do you know of any common carrier of anything anywhere that does not have to suffer, or perhaps I should say enjoy, government regulation?

MR. ASKEW: Well, a common carrier in the States comes under the Interstate Commerce Commission.

MR. FRAWLEY: It does indeed and it has a good deal of government wrapped in the Interstate Commerce Commission all the way from the way you keep your accounts to what you charge and even regulating your profit.

MR. ASKEW: Yes.

MR. FRAWLEY: Well, that is a part of life you have learned to live with in the United States?

MR. ASKEW: Yes, sir.

MR. FRAWLEY: Well, why should it be any different in Canada or perhaps I should put it differently: how could we safely make it any differently in Canada?

MR. ASKEW: Well, I do not know that I can tell you that.

MR. FRAWLEY: Do you not think frankly, and I do not want to rewrite your brief, but do you not think you put a pretty circumscribed understanding of public interest as far as common carrier

crude oil pipelines are concerned?

MR. ASKEW: We think the laws of economics take care of this.

MR. FRAWLEY: The laws of economics operate to some extent in the United States of America?

MR. ASKEW: Yes.

MR. FRAWLEY: But notwithstanding that they have all this regulation of ICC, common carrier pipelines moving in Interstate Commerce?

MR. ASKEW: That is true.

MR. FRAWLEY: And I suppose you have some state laws to cover pipelines operating intra state?

MR. ASKEW: Yes, I am sure there is.

MR. FRAWLEY: Turning to this Montreal project, you could apply the same sort of limited public interest in this proposed Montreal pipeline?

MR. ASKEW: If there is to be a Montreal pipeline.

MR. FRAWLEY: If there is to be a Montreal pipeline would you think it should evolve or emerge within the law of supply and demand or just bear basic economies?

MR. ASKEW: Well, if it is an economical thing I think it will take care of itself.

MR. FRAWLEY: Now, you say it should be an industry facility.

MR. ASKEW: I do not think we saidit should be an industry facility, no large pipelines

are an industry facility.

MR. FRAWLEY: Well then, this proposed pipeline then would be, in your view, an industry facility?

MR. ASKEW: Yes, sir.

MR. FRAWLEY: Well, the six refiners in Montreal would be the people then that you would expect to build that pipeline?

MR. ASKEW: You are asking me would I expect them to build it?

MR. FRAWLEY: I am taking what you said, it is an industry facility and you come to Montreal and have all of these refiners and I would think that the industry would be the six Montreal refiners who are in the industry today and for which this would be a facility.

MR. ASKEW: That appears logical, I believe the industry built the Interprovincial.

MR. FRAWLEY: That is what I was saying, it would appear logical they would be the people to build this, each and every one of them refused to take it and you and I know that each and every one of them take foreign-owned crude that they are bringing into Montreal and refining it here. Do you still say there is no place for government intervention so as to use Canadian oil in Canada?

MR. ASKEW: I would look at which benefits the consumer the most.

MR. FRAWLEY: Only the consumer, how about the producer of the oil in Alberta, Saskatchewan and Manitoba?

MR. ASKEW: Is it not a matter of competition, Mr. Frawley?

MR. FRAWLEY: Well now, is it? You were not able to stand competition, you had to bring the great, big Sun Oil Company to manage your production. I think that was a very helpful thing you did as far as my understanding of the situation is but you come back and say it is a matter of competition but you could not stand the competition but you expect eacn and every one of the others to stand the competition or go to the wall. On this law of supply and demand, are you as hard-boiled about it as that, Mr. Askew?

MR. ASKEW: That seems to be our way of life.

MR. FRAWLEY: In fact, you wind up by saying on page 39 - I suppose you are saying the same thing - "the spectacular growth of the Canadian Petroleum industry has been achieved under Canadian laws, regulations and policies which substantially exist today. These, in our judgment, are deserving of study, for if they have encouraged so much in so short a time are they not worthy of continuance". That is very laissez faire, isn't it?

MR. ASKEW: I am not very good at French.

MR. FRAWLEY: That is no answer. Just let well alone, leave it alone - laissez faire. Do you think that that is good enough for the Canadian oil industry?

MR. ASKEW: I think we stated in the brief that the recession today is of a temporary nature and it won't always be with us.

MR. FRAWLEY: It may be, as you say on page 32 - and others have said it; it seems to me you said it rather glibly - that higher prices in the province, that is Quebec, would result, and I think you expanded upon it in answer to my friend Mr. Pattillo. Now, how can you say that?

[illegible]

[illegible]

[illegible]

Let me just put it to you that the laid down cost of Venezuela crude in Montreal is $3.07, and the laid down cost of Alberta crude is $3.29 and when you look at the posted tank wagon price of gasoline,distillate and fuel oil, not bunker "C", you find that they are almost on a par. Now, accepting that those tank wagon prices and those two laid down crude costs, how can you say that as an immediate necessity and automatic consequence prices in the Montreal area must go up?

MR. ASKEW: Well, something has to pay to get the crude to Montreal.

MR. FRAWLEY: For the purpose of my question I am assuming there will be a somewhat higher cost. I am not necessarily to assume that, because the situation will develop where the cost will be the same and you wouldn't then have the situation where higher prices would be necessary.

MR. ASKEW: No, if the laid down cost is the same, I would accept that.

MR. FRAWLEY: And I am saying, suppose there is some little difference there, say, 3.07 against 3.15 - that is just a figure out of my head; it may or may not be the best estimates (they are all estimates, of course, in connection with the Alberta pipe line) -

but assuming something of that sort, you say something has to pay for it, and it is conceivable that the Montreal refinery spread may pay for it.

THE CHAIRMAN: But Mr. Askew wouldn't know that. If refinery spreads in the Montreal area are known to each of the members of the industry as to what they are, I would be very amazed.

MR. FRAWLEY: I am putting it very generally that the refinery spread may - and I haven't seen them, and I am not permitted to see them - they may be permitted to take up this slack.

MR. ASKEW: It is possible, but I do not know the refinery spreads in Montreal.

MR. FRAWLEY: Now, Sun Oil hasn't been producing crude in Venezuela for very long.

MR. ASKEW: Since April.

MR. FRAWLEY: About what is the production running?

MR. ASKEW: At the present time I don't think I have it, Mr. Frawley. It is nominal.

MR. FRAWLEY: How much more than the 5,000 barrels a day that you are taking into the line at Beaumont?

MR. ASKEW: The Sun Company in Venezuela in the production are in partnerships

with Atlantic and Seaboard, which is now Texaco, and just what their total production is at the present time I don't know, but before we started running the 5,000 barrels the partners in the Sun Company were taking care of the crude.

MR. FRAWLEY: For Sun?

MR. ASKEW: Yes.

MR. FRAWLEY: Perhaps I should understand that the 5,000 barrels was really all you had.

MR. ASKEW: I don't know; I can't answer that. I can assume only, and I think you may be right, but I am not sure today.

MR. FRAWLEY: Could you operate just from the standpoint of volume alone and quantities available, could you operate your Sarnia refinery on Venezuelan crude?

MR. ASKEW: Total?

MR. FRAWLEY: Yes.

MR. ASKEW: I don't think there is that much production, but I am not sure.

MR. FRAWLEY: At the moment, although the difference between the Venezuelan and Alberta crude is very, very small, the difference may improve some; when your new line goes in you will have a better price, a better laid down cost of Alberta crude at Sarnia.

MR. ASKEW: Yes, slightly, slightly better cost.

MR. FRAWLEY: But, not withstanding that slight advantage which Venezuelan crude has over Alberta crude, you are using Canadian crude because you think it is good business for you to use Canadian crude.

MR. ASKEW: Yes, we think it is good business to use Canadian crude, and it is cheaper in Sarnia than U.S. crude.

MR. FRAWLEY: Than U.S. crude, yes, it may or may not be any better for you, the pure economics of it, if you had encugh Venezuelan crude to run.

MR. ASKEW: It might not be.

MR. FRAWLEY: Incidentally, do you know how much Venezuelan crude is penetrating the U. S. market up as far as, say, Chicago and Toledo - all over?

MR. ASKEW: No, I don't know. I only know a few articles I have read in trade journals. I haven't seen any evidence on that point.

MR. FRAWLEY: And for the same reason you can't tell me if any other Venezuelan crude goes into the Sun line at Beaumont.

MR. ASKEW: I can't tell you.

MR. FRAWLEY: I am practically asking

you the same thing.

MR. PATTILLO: Mr. Frawley, may I ask a question that has occurred to me? What is the distance in miles from Beaumont to Sarnia?

MR. ASKEW: I can add a few things together and give you an approximate answer. We have stated that the Mid-Valley line is 1,000 miles long.

MR. FRAWLEY: I think, Mr. Chairman, I have no further questions.

MR. ASKEW: About 1,400 miles.

MR. PATTILLO: What is the distance from Edmonton to Sarnia?

THE CHAIRMAN: The same, isn't it?

MR. FRAWLEY: A little more.

MR. DUNLAP: Be closer to 1,800 miles, isn't it? That would be a guess on my part.

MR. FRAWLEY: Who posted the price of two-seventy that you, as far as you know that you pay in Venezuela?

MR. ASKEW: Other producers down there.

MR. FRAWLEY: I mean you don't know which one posted it?

MR. ASKEW: I don't know.

MR. PATTILLO: Do you know anything about a tariff price of the pipeline from Beaumont to Toledo expressed in barrel miles, of 100 barrel miles?

MR. ASKEW: I don't know that, Mr. Pattillo. Perhaps we can get it for you?

MR. PATTILLO: Thank you.

MR. FRAWLEY: Yes, if I might say in view of some figures that we have from Interprovincial, can I ask you to find out what the per 100 barrel miles of cost or rate is on that movement from Beaumont to Toledo?

MR. ASKEW: You want overall?

MR. FRAWLEY: Overall, yes.

MR. ASKEW: Not just on Mid-Valley portion?

MR. FRAWLEY: No, because you have a substantial interest in Mid-Valley and you have a substantial interest in the connecting line, the Sun

pipeline which connects at both ends?

MR. ASKEW: That is right.

MR. FRAWLEY: So let us take it from Beaumont to Sarnia.

MR. ASKEW: All right sir.

THE CHAIRMAN: In other words, what is the tariff that you charge when that oil is landed at your refinery in Sarnia for the movement per 100 barrel miles from Beaumont to Sarnia?

MR. ASKEW: All right sir, we will get that.

THE CHAIRMAN: Mr. Askew, does that Venezuelan oil that comes through that pipeline, does it come through in bond?

MR. ASKEW: Yes, it does.

THE CHAIRMAN: And if it did not come through in bond what would be the additional laid-down cost of that crude at Sarnia at your refinery?

MR. ASKEW: If it did not come through in bond?

THE CHAIRMAN: In bond, yes. In other words, if it had to pay the duty. What I am getting at is that you are bringing Venezuela crude through the United States on a pipeline which is obviously making a substantial profit as a, whatever you want to call it, common carrier, an industry facility or anything else, and you are laying the Venezuela crude down at Sarnia without duty to the United States?

MR. ASKEW: That is right, sir.

THE CHAIRMAN: Is there any Canadian duty on that?

MR. ASKEW: On crude oil?

THE CHAIRMAN: Yes?

MR. ASKEW: No, sir.

THE CHAIRMAN: And it is laid-down at 2 cents less than you can bring crude from Alberta approximately 400 miles longer over a pipeline, correct, from your own production in Alberta?

MR. ASKEW: I believe those distances are approximately correct.

THE CHAIRMAN: Can you get that figure worked out; that equation worked out for us please?

MR. ASKEW: I will get it tonight.

THE CHAIRMAN: Is the Sun Oil Company or its parent or any affiliate of your organization, corporate-wise, a holder of shares or bonds in Interprovincial Pipeline?

MR. ASKEW: It does not.

THE CHAIRMAN: It does not?

MR. ASKEW: In so far as I know there is no equity in Interprovincial.

THE CHAIRMAN: As far as you know there is absolutely no financial interest of your organization in Interprovincial Pipeline?

MR. ASKEW: That is right.

THE CHAIRMAN: Has your company ever

bargained with Interprovincial Pipeline with respect to the charges which it was making of your crude from Alberta to Sarnia refinery?

MR. ASKEW: Not to my knowledge we have not.

THE CHAIRMAN: You have never questioned their tariff?

MR. ASKEW: Never questioned it.

MR. COMMISSIONER BRITNELL: Am I right, Mr. Askew, in assuming from your brief that you see no useful function of any kind which a National Energy Board might carry out?

MR. ASKEW: Mr. Britnell, we don't think much of Boards. I mean in so far as turning over the affairs of business and men to Boards.

MR. COMMISSIONER BRITNELL: That is what I gathered from your brief, but I just wanted to be quite sure that you do not see any function. You are quite satisfied to leave such regulatory functions as are now being carried out to the Board of Transport Commissioners and the other agencies of the Department of Trade and Commerce that carry them out?

MR. ASKEW: I think that is true. I would say we have no complaints.

MR. COMMISSIONER BRITNELL: Thank you.

MR. COMMISSIONER HOWLAND: Mr. Askew, just one last question as far as I am concerned. On page 30 there is a paragraph I would like you to

just elucidate on a little. It is the extension of your discussion of the curves which appeal to hungry business men. Would you just have a look at that paragraph there?

> "The recent faltering in the upward curve of Canadian crude oil production reflects, in our judgment, a temporary situation."

You say it will pass and you start responding to the "same economic incentive that stimulated its growth to date, unless some unforeseeable, artificial step is taken to deny that incentive". What had you in mind there?

MR. ASKEW: Government regulations and interventions and controls.

MR. COMMISSIONER HOWLAND: That is Canadian Government?

MR. ASKEW: Yes, sir. We are talking about the Canadian production.

MR. COMMISSIONER HOWLAND: Did you have in mind, also, say the United States Government?

MR. ASKEW: The same thing would apply.

MR. COMMISSIONER HOWLAND: Or Venezuela Government?

MR. ASKEW: Yes.

MR. COMMISSIONER HOWLAND: In other words, you are advising the Commission, this is what I am trying to get at, that the incentive for exploration and development in Alberta, as one example in

the west of western producers, will be affected by government decision, not only Canadian Government but other governments?

MR. ASKEW: It's probable.

MR. COMMISSIONER HOWLAND: And you would advise the Commission seriously that quite apart from the Canadian Government, if other government decisions embarrass the development of that oil industry then perhaps the Canadian Government might have to make some decisions of its own?

MR. ASKEW: I don't think we have said that.

MR. COMMISSIONER HOWLAND: Well, all right now, just think about it. Would you tell us whether you do think so now? You have a substantial interest in Alberta?

MR. ASKEW: I would say the answer to that is yes. Of course that is up to the government but we as an industry could not recommend it.

MR. COMMISSIONER HOWLAND: I am not frankly trying to embarrass you. I think that the problem that we have to face in Canada is that you have a burgeoning industry in the West which means a lot to Canada and one might foresee with some equanimity temporary set-back due to economic conditions. Going along with you that some of these economic forces in fact play a reasonably strong part in developing policy, you could hardly assume that if it is an arbitrary decision outside of Canadian

jurisdiction? I mean it is not the type of force you are talking about, or am I wrong? When you talk about your philosophy, which I think you took back to Confucius but I go back to Adam Smith and stay there for a while, here you are introducing another factor in this broad economic philosophy of yours when you are talking about an arbitrary decision of another government, and I was just trying to clarify that you did not have in mind here only Canadian activity.

MR. ASKEW: We had in mind in preparing the brief Canadian activities knowing that other governments would have an effect on it also.

MR. COMMISSIONER HOWLAND: But you would not put such force into this if you knew that the so-called economic factor was in fact not an economic factor but some arbitrary decision or some special decision over which Canada had no control and which had little to do with economic forces?

MR. ASKEW: I think it would have to be considered.

MR. COMMISSIONER HOWLAND: Thank you very much.

THE CHAIRMAN: Thank you very much, Mr. Askew, Mr. Dunlap and Mr. Parmelee. Your brief has been very frank. I am not prepared to say, but there are two or three things in it on which we have not asked you any questions, deliberately, but which are most helpful, apart from the ones on which we have asked questions. The brief is most helpful to the Commission, and we appreciate very much the time and effort you have put on it.

MR. ASKEW: Thank you for listening to us. I also want to thank you for staying late. It enables us to get back to Calgary on schedule.

THE CHAIRMAN: There is no place we would sooner see people happier.

The hearing is now adjourned. We shall meet tomorrow morning at ten o'clock in this Council Chamber.

---Whereupon the hearing adjourned at 5.15 p.m. until Wednesday, July 16th, 1958, at 10.00 a.m.

Mr Borden

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

MONTREAL

P. Q.

VOLUME No.:

56

DATE:

JUL 16 1958

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO. LTD.
371 BAY STREET
TORONTO
EM. 4-5773 EM. 4-5865

ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

ROYAL COMMISSION

on

ENERGY

Proceedings of hearings
held at Montreal, P. Q.,
commencing Monday, July 14,
1958

PRESENT:

MR. H. BORDEN, C.M.G., Q.C. - Chairman

MR. J. L. LEVESQUE - Member

DR. R. D. HOWLAND - Member

DR. R. M. HARDY - Member

MR. L. J. LADNER - Member

MR. G. E. BRITNELL - Member

COMMISSION COUNSEL:

Mr. A. S. Pattillo, Q.C.

Mr. M. H. Patterson

Mr. J. F. Parkinson - Secretary

Major N. L. Lafrance - Asst. Secretary

E X H I B I T S

Wednesday,
July 16, 1958.

---On resuming at 10.00 a.m.

Submission of

CANADIAN PETROFINA LIMITED

APPEARANCES:

Mr. A.F. Campo	-	President
Mr. J.R. Patton	-	Vice-President
Mr. G.S. Hanna	-	General Manager of Supply and Distribution
Mr. A.W. McLeod	-	Solicitor and Secretary
Mr. W.S. Takacsy	-	Assistant to President
Mr. H.J. Hughes	-	Treasurer

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Patterson.

MR. PATTERSON: Thank you, Mr. Chairman. This morning we are to hear a submission by Canadian Petrofina Limited, which I would ask to be marked as Exhibit M-16-1.

Mr. Campo, President of Canadian Petrofina, is present, and I understand he will read the submission. I would ask Mr. Campo to first, before proceeding with the reading, introduce the gentlemen who are with him.

---EXHIBIT NO. M-16-1: Submission of Canadian Petrolfina Limited.

MR. CAMPO: Mr. Chairman, from the left, I would like to introduce Mr. McLeod, Solicitor and Secretary of the Company; Mr. Hughes, Treasurer, Mr. Takacsy, Assistant to the President; Mr. Hanna, General Manager of Supply and Distribution and Transportation; Mr. Patton, Vice-President, in charge of the refinery.

THE CHAIRMAN: Will you proceed, sir? Are you going to read?

MR. CAMPO: May I have Mr. Hanna read?

MR. HANNA: Mr. Chairman, this brief has been prepared at the request of the Royal Commission on Energy and expresses the views of Canadian Petrofina Limited concerning:-

1. Marketing of Western Canadian crude oil.
2. The National Energy Authority.

This submission will first outline our Company's operations and then deal with the two subjects in the above order.

Canadian Petrofina Limited markets petroleum products in the Maritime Provinces, Quebec, and Central and Eastern Ontario and operates a refinery at Montreal. The Company, together with its subsidiaries, Calvan Consolidated Oil & Gas Company Limited and Western Leaseholds Ltd., is engaged in exploration, development and production of Western Canadian crude oil. Crude oil production of our Group (before royalty) averaged approximately

9,000 barrels per day in 1957.

Control of the Company is in the hands of Petrofina, S.A. of Brussels, Belgium. However, all policies are determined in Canada by the Board of Directors and Management. In this connection, it should be pointed out that the Board of Directors is composed preponderantly of leading Canadian businessmen and Management is entirely Canadian.

Petrofina, S.A. and its subsidiaries and associated companies have, at present, no crude oil production of their own outside of Canada for which they require markets in this country. They do produce oil in Egypt, Venezuela, Angola, Mexico and the United States, but it is all used close to the source of production.

However, Petrofina, S.A. is committed by agreement to supply our requirements of crude oil and its transportation by ocean tankers. Canadian Petrofina may seek other sources of supply, but has to give Petrofina, S.A. the first right to supply its requirements on equal conditions. In other words, under this arrangement, our Company is guaranteed crude oil supplies and ocean transportation at competitive prices.

The bulk of our oil is purchased from a British oil company which has extensive production and reserves in the Persian Gulf area. The largest portion of the crude supplied to our refinery comes from Kuwait.

As mentioned earlier, Canadian Petrofina has substantial producing interests in Western Canada. In fact, the value of these interests represents more than 50 per cent of the Company's total fixed investments. Our Company is, therefore, vitally interested in securing markets for Canadian produced oil. As a consequence, it plans to construct a plant for the refining of Canadian crude in Ontario as soon as the volume of its sales will warrant it. This should occur some time in 1961 or 1962.

Part I. MARKETING OF WESTERN CANADIAN CRUDE OIL.

The problems of our crude producing industry cannot be separated from the pattern of oil production and consumption throughout the world.

The present economic recession in most industrialized countries has, temporarily, slowed down the rate of increase in petroleum demand. On the other hand, world productive capacity has expanded rapidly in recent years. This has brought about a surplus crude production which can only be absorbed gradually through increased world consumption.

From a long-term point of view, the most significant fact is that the world's known crude oil reserves are unevenly distributed, particularly in relation to the major centres of consumption.

Western Canada is, in our opinion, in an excellent position to benefit from the continued growth

in North American petroleum requirements which other producing areas on this Continent will not be able to satisfy in the long run.

We believe that recent authoritative studies, such as the one published by the Royal Commission on Canada's Economic Prospects, have sufficiently proved this point. Consequently, we shall concern ourselves here primarily with the present position of the Canadian petroleum industry and its short-term, rather than long-term, prospects.

The position of the Canadian producing industry: Our crude producing industry has undergone a spectacular development during the last decade. Starting from the Prairie Provinces, it has expanded its markets to the Pacific Coast, into the United States and as far as Toronto in the East. Western Canada has experienced one of the most rapid rates of growth among the large producing areas in terms of crude oil production and penetration of markets.

This expansion has been achieved on a sound economic basis: the successive displacement of competitive sources of supply has resulted from the construction of large-scale transportation facilities and such wellhead price adjustments as appeared justified by the additional volumes gained.

In late 1956 and early 1957, the industry benefited from a temporary shortage situation created by the Suez crisis. Disregarding the influence

which this had on the demand for Western Canadian crude, the major factor responsible for the reduced markets available since the last quarter of 1957 has been the economic recession in Canada and the United States, accompanied by a severe inventory reduction in the industry itself.

This condition, however, does not account entirely for the widening of the gap between actual and potential production in Western Canada which started in 1953. It appears that development of new production has been carried on upon the incorrect assumption that our markets would continue to expand at the exceptionally fast rate achieved in the earlier years.

The resultant over-expansion of production in relation to the available markets and the temporary adverse factors mentioned earlier have undoubtedly placed crude oil producers in Alberta in a difficult position.

Essentially, the problem is one of expanding the market for Western Canadian crude and gas to a level which will ensure continued sound growth for the producing industry. There are three main courses by which this can be achieved:

1st by the development of our natural economic markets

2nd by a reduction in the wellhead price of Western Canadian crude

3rd by the artificial expansion into domestic markets presently beyond the economic reach of Western Canadian crude.

Development of our natural economic markets: On this point there is no disagreement in the industry as to what should be done and must be done.

Dealing first with the Canadian markets, product imports into British Columbia and Ontario should be displaced as soon as possible and as much as possible. This is within the power of the industry itself and programs have been instituted to achieve this objective.

New refining capacity under construction in the Vancouver area will displace a certain volume of product imports.

New refining capacity under construction and projected in Ontario will have the same effect in that very important market. This, together with the rapid increase in consumption expected in this densely populated and highly industrialized area and the consequent gradual elimination of products refined at Montreal will increase Western Canadian crude sales considerably.

As a result, we believe that total domestic demand for Western Canadian crude will reach a level of about 500,000 b/d by 1960 and 575,000 b/d by 1962.

When we deal with the export market, the

problem is of a complex nature and its solution is not entirely within the power of the industry itself.

The United States has established a system of voluntary import quotas on crude oil in both major areas in which Canadian crude is sold: the Pacific Northwest and the Mid-West. So far, these quotas have had little effect on the movement of Western Canadian crude into the United States, partly because they were set at a relatively reasonable level and partly because the economic recession and the inventory liquidation had reduced the demand for crude oil in the areas affected.

There is a danger, however, that quotas may not be maintained in the future at a reasonable level and, in consequence, that refinery development in these areas may be retarded.

In order, first, to remove the uncertainty in this connection and, second, to ensure a treatment for Canadian crude which continental defence considerations as well as Canadian-U.S. trade relations fully justify, a high-level governmental approach to the United States appears necessary.

Extreme care must be exercised both by the industry and the Canadian Government that premature and precipitate action in our internal policies will not jeopardize a favourable outcome of such negotiations.

Under these circumstances, it is obviously

difficult to forecast export demand. Perhaps the best that can be done is to assume that, with current restrictions continuing, a minimum of 120,000 b/d of Western Canadian crude will move into the United States over the next few years, and that, without restrictions, our export volume might reach 200,000 b/d in 1960 and 250,000 b/d in 1962.

With regard to gas exports to the United States, the matter is one that is largely in the hands of our Government. The industry is unanimous in the opinion that further exports of natural gas should be authorized without delay. The increased revenue which would accrue to producers in Alberta would have an immediate beneficial effect on the petroleum industry and the economy of the nation.

Reduction in the wellhead price of Western Canadian crude: The quickest and surest way of developing new markets would be to reduce the wellhead price of Western Canadian crude. However, everybody agrees that Canadian wellhead prices are already low when compared with those of similar crudes produced in the Western Hemisphere. Moreover, our crude replacement costs are expected to rise. Under these conditions, we cannot advocate the sharp immediate and probable future reductions in wellhead prices that would be necessary in order to acquire and keep new markets, such as the Montreal market.

Artificial expansion into domestic markets

presently beyond the economic reach of Western Canadian crude: It has been suggested by some that the Montreal market should be economically accessible to Western Canadian crude were it not for the preference of the large international oil companies for using in the Montreal refineries of their Canadian subsidiaries and affiliates, low cost foreign crudes from politically unstable sources.

This accusation is not supported by evidence on hand which shows that the major oil companies in Canada, regardless of the affiliation of most of them with international companies, have done their utmost to expand the markets for Western Canadian crude.

The most evident proof is the capture of the Ontario market. If there had been any desire to discriminate against our Western crudes, the Ontario market could and would now be supplied by foreign crudes.

The completed, partially completed and projected expansion of refining capacity in Ontario by oil companies operating in the area, both independent and with international affiliations, proves beyond a shadow of doubt that those companies have done and are doing everything in their power to displace foreign crude with Canadian crude, wherever and whenever that is feasible.

Now, what are the facts with regard to the competitive position of Canadian crude in the Montreal area? In this connection, let us examine the case of Canadian Petrofina.

Canadian Petrofina refines in its Montreal refinery practically exclusively Kuwait crude. The posted price of this crude is $1.85 per barrel versus a posted price of $2.56 per barrel for Redwater crude. Admittedly Redwater crude is a more valuable crude than Kuwait, but Canadian Petrofina made a large investment in its refinery in order to be in a position to handle Kuwait crude and benefit from its low price. The investment in its refinery amounts to $1.70 per barrel of throughput as against

to $1,750 per barrel of throughput as against $1,200 per barrel for an average refinery. This investment already has been made and must be written off regardless of the type of crude that is refined.

There is another factor that must be considered. Our choice of Kuwait crude with its high fuel oil content was made with due regard to market requirements in the Montreal area. A lighter crude with its higher gasoline potential yield would not fit the pattern of market requirements in that area.

So we start with a differential of 71 cents per barrel in the posted prices of these two crudes. This differential would be somewhat offset by lower potential transportation costs by pipeline from Edmonton to Montreal. There is a divergence of opinion as to the amount of this transportation saving, but under normal conditions this could not offset the differential in the cost of the two crudes.

As of today, with tanker time-charters available at no higher than USMC-55% and with the U. S. dollar at a discount of 3¾% in terms of Canadian currency, the differential in the laid-down cost of the two crude oils at Montreal would be 58 cents per barrel in favour of Kuwait crude. (See table).

COMPARATIVE CRUDE OIL COSTS

(Dollars per barrel)

Redwater (35° API)		KUWAIT (31° API)	USMC 40%	USMC 50%	USMC -55%	USMC -60%
Posted Price (wellhead)	$ 2.56	Posted Price (f.o.b.Loading port)	$ 1.85	$ 1.85	$ 1.85	$ 1.85
Transportation to Edmonton	.08	Ocean transportation to Portland Maine	1.06	.88	.80	.71
Pipeline tariff Edmonton-Montreal	.60	Marine & pipeline loss	.03	.03	.03	.03
Pipeline loss	.03	Pipeline tariff Portland-Montreal	.11	.11	.11	.11
Laid-down cost at Montreal	$ 3.27[x]	Laid-down cost at Montreal (in US dollars)	$ 3.05	$ 2.87	$ 2.79	$ 2.70
		Equivalent in Canadian currency at $3\frac{3}{4}\%$ discount	$ 2.94	$ 2.76	$ 2.69	$ 2.60

[x]The delivered cost of $3.27 per barrel for Redwater crude does not take into account an additional charge of approximately 7 cents per barrel, representing amortization of the estimated loss resulting from the abandonment of the Portland-Montreal Pipeline.

It is evident from the above that under present conditions the Montreal market lies outside the economic range of Western Canadian crude. The proposal, then, that import quotas on both crude oil and refined oils be imposed in order to make economically feasible the construction of a pipeline from Edmonton and to insure the use of Canadian crude by Montreal refiners is not put forward to combat the alleged preference for foreign crudes by Montreal refiners with international affiliations, but is an attempt to force the use of Canadian crude by those refiners regardless of the cost.

Let us consider, then, the effect of these proposals:

1. In order to eliminate effectively competition from foreign crude oils at Montreal, a system of import quotas and/or duties would be necessary. As the pipeline to Montreal would establish a long-term price and supply pattern in that area, such a system would have to be of more than a purely temporary nature and would have to be applied on imports of crude oil as well as refined products in the entire Eastern Canadian market. The Government would thus clearly acquire a major and possibly increasingly dominant role in directing the industry's affairs. Canadian Petrofina is firmly opposed to this.

2. As previously stated, Canadian wellhead prices are low compared with those of similar crudes produced in the Western Hemisphere. On the other hand, our crude replacement costs are expected to rise. As larger and more accessible markets will become available for Canadian crude in the future, unless quota restrictions were applied indefinitely, the industry would almost certainly suffer from the fact that it would be placed on a long-term basis of having its field prices of crude oil determined by competitive conditions at Montreal. This would be the penalty that we would incur by trying to cure by long-term measures a situation which basically stems from temporary causes. We do not believe this to be in our best interests as producers of crude oil.

3. As the competitive disadvantage of Western Canadian crude would not permit Montreal refiners to enter into long-term commitments, the Federal Government would either have to provide the necessary guarantees or participate directly in the financing and construction of the pipeline. Canadian Petrofina is opposed in principle to the invasion by the Government of a field which in our economic system belongs to private enterprise.

4. From the overall Canadian position, it would appear on the surface that elimination or

curtailment of crude oil imports would be a boon to the Canadian economy by reducing our trade deficit. We must, however, take into consideration the fact that our adverse trade balance is largely a consequence of the heavy inflow of capital which has during recent years contributed to the country's rapid economic development. Factors, other than quantitative restrictions of Canadian imports will, in the normal course, tend to correct this imbalance. (This is fully borne out by our trade statistics for the current year as compared with 1957).

Any steps taken now to erect artificial barriers might well work to the disadvantage of Canada as a trading nation in general and as a crude oil exporter in particular.

The loss of dollars to the Sterling Area caused by the elimination of economically sound crude oil imports would not be conducive to the expansion of trade with that area.

The inevitable increase in energy costs to our industries in the Province of Quebec and the Ottawa-Cornwall area would certainly have an adverse effect on their ability to compete in world markets.

We wish also to reiterate that severe repercussions might occur in relation to our basic efforts to expand the U.S. markets for our crude.

5. If Montreal refiners were forced to use Canadian crude, they would have no alternative but to pass the increased cost on to the consumer in the form of increased product prices. As consumption of petroleum products in the area affected, i.e., the Province of Quebec and the Ottawa-Cornwall area runs close to 75 million barrels per year, this would, on the basis of the differential already mentioned, and present consumption, involve an increase of up to 44 million dollars per year in the cost of petroleum products to the ultimate consumer in those areas.

Such a price increase would undoubtedly have an adverse effect on the economy of those areas by adding to the costs of manufacturing, transportation and practically every other phase of economic activity.

Canadian Petrofina feels that it cannot give its support to any scheme that would have such far reaching effects on the welfare of its customers in the area in question.

6. It is also apparent that the proposed pipeline from Edmonton to Montreal would not be completed and in operation before 1961. As we have already intimated, there is clear evidence that the level of Canadian crude oil production will have been raised substantially by that time through

the operation of normal business processes.

This means that the effects of an uneconomic project would begin to be felt only when the industry would, to a large extent, have overcome the difficulties which prompted that project.

CONCLUSION AS TO THE MARKETING OF WESTERN CANADIAN CRUDE OIL: The oil producing industry in Canada has enjoyed a period of rapid expansion, progress and prosperity. It is now faced with a period of readjustment.

It is significant that by far the largest section of the industry does not ask for any governmental help other than in areas where no other action is possible and where its own initiative cannot operate. It does not ask for governmental help because, presumably, it believes in private enterprise, and it does not believe it possible for private enterprise to continue to operate freely if it is not prepared to take its risks and solve its own problems. We contend that private enterprise cannot reasonably expect Governments to come to its rescue when times are bad and then allow it to operate freely again when times are good.

Admittedly we are going through hard times. A section of the industry feels the effects of these hard times more than the rest.

Canadian Petrofina belongs to that section, but under no circumstances will it be a party to the adoption of measures which, while providing temporary relief, are opposed both in principle and in fact to the long-term welfare of the company, of the industry and of Canada.

While refusing help where private enterprise and ingenuity should operate, we realize that there are areas where Government action can and should be effective.

We repeat that it is urgent and important that our Government authorize further exports of natural gas to the United States.

We also wish to emphasize that the Canadian Government should do all in its power to ensure that treatment for Canadian crude by the U.S. Government which continental defence considerations as well as Canadian-U.S. trade relations fully justify.

We also believe that a revision of our income tax laws ensuring a more equitable depletion allowance for Canadian producing companies is essential.

Finally, while not asking for such help ourselves, we would not object, if the Canadian Government feels that it is necessary and in the national interest to support the weaker members of the producing industry, to

[illegible]

measures that would make available temporary financial assistance for those requiring it.

In conclusion, we affirm our belief that the natural development of our crude oil markets, aided by the measures suggested above, will ensure the continuing sound growth of our producing industry.

PART II - THE NATIONAL ENERGY AUTHORITY: We are not in favour of the proposal to establish a National Energy Authority for the following reasons:

1. We believe that every industry, and every sector of an industry, should be allowed to function with a minimum of interference on the part of governments. We think that government interference with the energy industries should be limited to what is necessary for the protection of the public interest. In our view, the public interest is adequately safeguarded by the existing authorities and we are not aware of any strong public sentiment to the contrary.

2. Our governmental authorities already have wide regulatory powers in the fields of exploration, production and distribution of the various sources of energy.

3. There exists today a sufficient number of agencies at all levels to exercise these powers. In our view, no useful purpose

would be served by the creation of a further agency or authority to exercise some portion of the powers now in the hands of existing agencies.

4. It seems constitutionally impracticable to concentrate the existing powers - federal and provincial - in the hands of a single agency.

5. Official agencies have an inherent tendency to try continually to broaden their spheres of influence. Therefore, we consider that the creation of an additional board would inevitably and continuously increase the extent of governmental regulation of the industry. We do not consider such additional regulation to be in the best interests of the public in general or of the industry itself.

6. There is a serious danger that any new authority - created for a particular purpose and thought to be the direct consequence of the present inquiry - would prove to be an attractive medium for the use of groups endeavouring to further the special interests either of a particular section of the country or of a particular segment of the industry. We do not consider this desirable.

[illegible]

7. The oil industry has certain characteristics which require that it attract to itself a continuous supply of risk capital. We think it is true to state that this type of capital tends to favour well-developed industries that are directed by private enterprise, and is reluctant to enter fields which are the subject of any material degree of state control. Moreover, the industry does not have the advantages or disadvantages of a captive market and must adapt itself to the ever-changing conditions of supply and demand. It must be efficient to provide the consumer with the most suitable form of energy at the lowest possible cost, in line with world-wide competitive conditions. These and other characteristics require that the oil industry be granted the widest possible latitude within which to operate. We believe that the creation of an additional governmental authority would gradually restrict this necessary freedom of action of the industry and retard its growth

In our view, the only real problem in this field is the need for a more precise delimitation of the limits of federal and provincial authority in the petroleum industry -- particularly with regard to pipeline construction and operation. Nevertheless, we appreciate the difficult constitutional questions involved and merely underline

this problem as one that will ultimately have to be dealt with by the federal and provincial legislatures. Once the limits of authority have thus been settled, the exercise of powers within each field will fall into the purview of the official bodies already existing, and that will suffice.

THE CHAIRMAN: Thank you very much, sir. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

Looking at page 1 of your submission would you please explain in more detail the corporate structure of Canadian Petrofina Limited? First of all, are any of its common shares in the hands of the public?

MR. CAMPO: There are two classes of shares: so-called common and preferred. They are both equity shares. The preference for the preferred shares is simply that they must receive a certain dividend of 6 per cent before the common shares receive any. The other difference between the two sharesis the fact that the common shares are $1 par value and the preferred shares are $10 par value. The vote is one for each share. All of the common shares are held by Belgian Petrofina. They are not marketed on the market. There are only the preferred shares which I repeat are equity shares just as much as

the common shares.

MR. PATTILLO: Of the preferred shares what per cent of them are held in Canada?

MR. CAMPO: Of the preferred shares we have the latest records: Canadian is 11.87 per cent ownership; American, 4 per cent; foreign, 3.62 per cent, and unknown, 80.51 per cent -- unknown because the shares are in bearer form.

MR. PATTILLO: Although you don't know, can you tell by where the warrants were given in and cashed? Can you give us any better idea of the probable location of those shares?

MR. McLEOD: We cannot tell exactly but it does appear that the majority, a substantial majority of this 80.51 per cent are held on the European continent.

MR. PATTILLO: Now, what per cent of the equity do the preferred shares represent?

MR. McLEOD: Mr. Campo, when he was discussing the corporate structure, I am not sure that he gave the total capital outstanding.

MR. PATTILLO: No.

MR. McLEOD: We have 20 million ordinary shares, or common shares, if you will, outstanding, issued and outstanding; 20 million authorized. Those shares are held entirely by the parent company. We have 8 million participating preferred shares authorized. Of those shares approximately

6 million are issued and outstanding, actually 5,966,374 as of the latest date, and those are the figures by which we gave the percentage breakdown earlier.

MR. PATTILLO: Now, how many directors of the company are there?

MR. CAMPO: We have altogether fifteen directors.

MR. PATTILLO: And of those fifteen directors how many are resident in Canada?

MR. CAMPO: I should like to read the list of them.

D. W. Ambridge, C.B.E.	-	Canadian
W. A. Arbuckle	-	Canadian
P. Bienvenu	-	Canadian
Henry Blaise	-	Belgian
A. F. Campo	-	Canadian
W. L. Forster, C.B.E.	-	Canadian
E. L. Harvie, Q.C.	-	Canadian
W. H. Howard, C.B.E., Q.C.	-	Canadian
Henry Lafond	-	French
Jules Moreau de Melen	-	Belgian
F. E. Notebaert	-	Canadian
Janson Noyes	-	American
Jean Raymond, Q.C.	-	Canadian
J. R. Timmins	-	Canadian
Laurent Wolters	-	Belgian

Altogether there are ten Canadian directors; three Belgian, one French and one American.

MR. PATTILLO: Thank you. Now, turning to the first subsidiary that you mention, Calvan Consolidated Oil and Gas Company Limited, is that a wholly-owned subsidiary?

MR. CAMPO: No, we have about 92.6 per cent, I think, of the common stock. They are

owners of 92.69 per cent of the common stock.

MR. PATTILLO: And the remaining per cent is in the hands of the public?

MR. CAMPO: Of the public, yes -- American shareholders and Canadian shareholders.

MR. PATTILLO: Can you tell us what proportion of that remaining 7 per cent are Canadian?

MR. CAMPO: I really have no figures on that.

MR. McLEOD: We have no figures.

MR. CAMPO: If you like to have those figures we can get them.

MR. PATTILLO: Now, in addition to common stock has Calvan Consolidated any other shares outstanding, or bonds, or debentures?

MR. CAMPO: No.

MR. PATTILLO: How many directors has it?

MR. CAMPO: Seven directors.

MR. PATTILLO: Seven directors?

MR. CAMPO: Yes. They are: G. M. Bell, A. F. Campo, W. L. Forster, G. R. Gardiner, R. F. Graham, T. Nitescu and Blancke Noyes.

MR. PATTILLO: Is Calvan engaged solely in the producing end of the business?

MR. CAMPO: That is right.

MR. PATTILLO: In what province is it operating?

MR. CAMPO: Alberta and Saskatchewan.

MR. PATTILLO: It has production in both provinces?

MR. CAMPO: And B. C.

MR. PATTILLO: Production in all three provinces?

MR. TAKACSY: It has production in Alberta and Saskatchewan, but it is engaged in exploration in B. C.

MR. PATTILLO: Western Leaseholds Limited -- is that a wholly-owned subsidiary?

MR. CAMPO: We own 96 per cent, 96 point something per cent of the stock.

MR. PATTILLO: And the remaining per cent are held by the Harvie interests?

MR. CAMPO: By the which?

MR. PATTILLO: Harvie?

MR. CAMPO: No, by the public.

MR. PATTILLO: By the public. What is its position, in addition to the common shares of which you have 96 per cent, are there any other shares or debentures outstanding?

MR. CAMPO: No.

MR. PATTILLO: And the directors of that company, how many are there?

MR. CAMPO: Seven. They are: A. F. Campo, J. R. Fisk, W. L. Forster, D. S. Harvie, E. L. Harvie, H. W. Meech and Trajan Nitescu.

MR. PATTILLO: And it is solely in the

producing business?

MR. CAMPO: That is correct.

MR. PATTILLO: And operating in what provinces?

MR. CAMPO: Saskatchewan and Alberta.

MR. PATTILLO: You tell us here as to your approximate daily sales of oil in the year 1957. Can you tell us what your MPR figures were?

MR. TAKACSY: Our MPR figures, that is for the entire group as at the beginning of this year, were 23,375 barrels a day.

MR. CAMPO: That includes, incidentally, Pot Lake, which is an operation entirely in the hands of Canadian Petrofina.

MR. PATTILLO: Now, that is your MPR. Can you break that down for us as between the provinces?

MR. TAKACSY: Out of the 23,375, 20,925 barrels a day are in Alberta and 2,450 barrels a day are in Saskatchewan.

MR. PATTILLO: Now, during this year of that 2,000-odd barrels in Saskatchewan, how much is being produced?

MR. TAKACSY: I haven't an exact figure on this. It has part of it in the Weyburn field which is not producing at its MPR, but I could get this information for you.

MR. PATTILLO: If you would get that information and file it with us. We would also like to know the Alberta situation. Can you give us that?

MR. TAKACSY: I have the combined situation, if I may say so.

MR. PATTILLO: Right.

MR. TAKACSY: Right now the latest month was June. We were producing at the rate of 5,500 barrels a day; that is about 24 per cent of produce-ability in the two provinces combined.

MR. PATTILLO: In the two provinces combined. Now what is the capacity of the refinery in Montreal?

MR. CAMPO: The capacity of the refinery in Montreal is about 30,000 barrels a day.

MR. PATTILLO: Thirty thousand?

MR. TCAMPO: Yes.

MR. PATTILLO: And at the present time have you any in-use capacity?

MR. CAMPO: We are -- Mr. Patton will answer this.

MR. PATTON: We have at our refinery new refinery at Pointe aux Trembles, which has just been on stream about two years, and it has had considerable extra capacity built into it, we are running about 20,000 barrels a day -- maybe a little more -- but we can go up to 30 and will, probably.

MR. PATTILLO: Now, at the bottom of page 1, you say "The parent company is committed by agreement to supply our requirements of crude oil and its transportation."

MR. CAMPO: That is right.

MR. PATTILLO: The next sentence is something I want to clear up. Am I correct in thinking that the parent company is the one that has the option to say whether it will supply or whether you have to get your supplies elsewhere?

MR. CAMPO: It has that option, that is correct, but if we should have been in a position where we couldn't get crude, they must supply. I don't know if I make myself clear. This whole thing, if I may say, relates to the finances, original financing of the company. If I might digress a little bit ---

MR. PATTILLO: Yes.

MR. CAMPO: When I tried to organize another oil company in Canada and I tried originally to place anything in Canada the questions and the difficulties I was faced with were probably the fact that they asked where was the crude coming from, who is going to assure you of a source of supply of crude. There was a fear that the other companies controlling crudes would refuse to sell us or would do something to stop us from getting into the market. Eventually Petrofina was interested in the plan and one of the conditions made to Petrofina was that there should be a public offering in Canada so there would be Canadian participation. One of the most important things I had to do with and deal with was the reassurance to the investing public that we would not be squeezed out, so far as crude was concerned and that we would get a crude at prices in forming the development which gives the Canadian Petrofina the maximum protection (a) it will always secure crude and transportation and (b) at competitive prices. In other words, we are free to look for other sources of crude and transportation.

MR. PATTILLO: But have you found them?

MR. CAMPO: We have to give them the option.

MR. PATTILLO: To meet the price?

MR. CAMPO: Yes.

MR. PATTILLO: Is this a long-term contract?

MR. CAMPO: I think it has five years to run -- four years and something.

MR. PATTILLO: What I am trying to find out is, when do they exercise this option?

MR. CAMPO: The minute we say that we have a source of crude at 'X' dollars or a source of transportation at 'X' dollars.

MR. PATTILLO: Are you constantly, Mr. Campo, going out and inquiring in the market about crude?

MR. CAMPO: That is right. For instance, in the agreement there is also, if I remember correctly and I am practically sure of this, an agreement that the parent company would supply products on the same basis, finished products. Time and time again we have bought finished products outside of the company because Belgian Petrofina could not meet the conditions. As far as crude is concerned, we bought crude always at posted prices and there has not been any problem about that. The only problem is transportation and transportation has always been supplied at a very competitive price.

MR. PATTILLO: Now, on page 2 you say that as your market develops you have plans for

constructing another refinery in Ontario.

MR. CAMPO: That is right.

MR. PATTILLO: Have those plans advanced to the place that the location of the plant has been arrived at?

MR. CAMPO: No -- well, the location of the plant quite likely would be -- we have our own ideas about it -- it would be in the Toronto-Hamilton area somewhere.

MR. PATTILLO: But you have not yet acquired the land?

MR. CAMPO: We have moved pretty fast in the last five years, we know we are going to continue moving fast and we are always looking forward to expansion so we think plant 61 - 62 will be ready for some action soon.

MR. PATTILLO: On page 4 in the third complete paragraph you say:

> "This condition, however, does not account entirely for the widening of the gap between actual and potential production in Western Canada which started in 1953. It appears that development of new production has been carried on upon the incorrect assumption that our markets would continue to expand at the exceptionally fast rate achieved in the earlier years."

Would you care to expand that statement?

MR. CAMPO: I know that is an unfortunate --

MR. TAKACSY: Actually the ratio of production to producibility declined from about 70 per cent in 1953 to around the present level which for the year might average out at 50 per cent or a fraction less. The statement we made here is perhaps an oversimplification in the sense that it is really the effect of various factors such as our producing system as well as the position and the anticipation of the producers.

MR. CAMPO: But the actual effect is that oil has been discovered, is being found and produced in excess of the actual economic demand market for it. There is no doubt about that. Perhaps that is an oversimplification of the thing but it may be interpreted the wrong way and it is not meant to be - -

MR. PATTILLO: I have not yet got it interpreted the right way.

MR. CAMPO: Well, can we say that there are certain groups who have certainly worried about markets and have done something about them but actually there have been a lot of people going in there and have found oil after searching for it and as far as the markets are concerned they did not concern themselves very much about it to start with. That is an actual fact. Besides that, there are certain things in addition to that, government

regulations and requirements having to do with development and so on and the production of that oil, putting down wells and so forth regardless of markets. I think we are referring to a mass of conditions that have created the expansion of the producing capacity away in excess of the demand for the product.

MR. PATTILLO: To sum it up, you say there are two main reasons for it, one that some people have been only concerned with producing and not interested in the problem of marketing and the government regulations have also put pressure on production?

MR. CAMPO: That is right, the whole system is - -

MR. PATTILLO: Now, Mr. Campo, have you or your companies, either of the subsidiaries, every made representations to the Alberta Government or the Saskatchewan Government as to their governmental regulations causing a development over and beyond - -

MR. CAMPO: No, we have not complained, we do not complain.

MR. PATTILLO: You are easy to get along with?

MR. CAMPO: That is right.

MR. PATTILLO: Well, what about the search for markets, what part has your company played?

MR. CAMPO: Obviously our company has had no part in it whatsoever.

MR. PATTILLO: You are one of the ones who have been lazy?

MR. CAMPO: No, I do not think anyone could accuse Canadian Petrofina of being lazy, it is just a question of age: in 1953 Canadian Petrofina did not exist, we started in 1954. If I said to you that we have been very active in creating markets for Western crude, obviously I would be talking through my hat because we have not had a chance. We have to get our feet on the ground first.

MR. PATTILLO: Well now, what about the subsidiaries that you now have? Have they ever -- their existence has been longer than Canadian Petrofina?

MR. CAMPO: Well, I cannot talk for them and what they do. As far as I know there has been no apparent effort under way that they could participate in the creation of markets as far as I know but I cannot talk for them as to what they do.

MR. PATTILLO: Well, what I am really interested in, Mr. Campo, from your experience in the business, what do you think the producer in Alberta should be doing about trying to get markets?

MR. CAMPO: Well, frankly speaking I must

admit I am very confused and very puzzled about it. Maybe I am getting too old for these new ideas that are cropping up in the world. Perhaps my ideas are too antiquated and maybe I should retire. I always felt about the thing this way, take Canadian Petrofina, they decide they want to go into producing because they think there are certain profits to be made out of producing. It makes certain estimates, whatever it may be, it goes into producing activities, buys oil at places, it can get markets for these oils and maybe now and then it makes a mistake. Maybe these figures that Canadian Petrofina have in mind, these expectations are not realized. Well, that is a problem we have to face and we have to solve ourselves. I do not understand this question that we should ask somebody to bail us out because we are in business and nobody asked us to go into business, we have to take certain risks in the expectation of making certain profits. Now, why should I expect somebody to come and bail me out? I just do not understand that language.

MR. PATTILLO: I must say I entirely agree with you but what I am interested in, as a producer in Western Canada, how are you going to bail yourself out?

MR. CAMPO: I do not know. That is my problem. If things were so simple -- I am sorry, I did not know this, I might take the thing to a

ridiculous point -- here in Montreal four years ago I was refining 40,000 barrels and I did not have a market for it and maybe I should have asked somebody to create markets for it.

MR. PATTILLO: You went out and created your own markets here?

MR. CAMPO: Yes.

MR. PATTILLO: I understand that but what I am really looking for is, have you given any thought as a producer of Western crude of what steps you or other people in interests similar to yours could take to get up your production from its present low percentage?

MR. CAMPO: Frankly speaking we figured out that there would be a certain consumption and certain things would happen that there would not be the more severe problems that have occurred. There are certain conditions that have arisen that nobody could forecast like this reduction in tanker rates which has affected very seriously the whole thing. Well, there is a problem but it is up to us to figure out how to solve that problem, how to improve our condition. Perhaps for a certain period of time there will be some lean years but that is part cf the game.

MR. PATTILLO: Well, do you think as an oil producer that going around to the Conservation Board once a month to find out what the nominations are for Alberta crude is doing very much to solve the problem?

MR. CAMPO: No, I didn't say that it is doing anything to solve the problem. I just have to go there to find out, but that is the only reason why I go there.

MR. PATTILLO: But that is all that the producer in Western Canada has been doing to solve the problem, isn't it?

MR. CAMPO: That might be so, yes.

MR. PATTILLO: I am asking you whether you think there is anything else. From your experience in the business, is there anything else that the producer might be able to do to help himself other than coming around, as some of them are, and asking somebody to help them?

MR. CAMPO: The producer that is in a position, that has marketing, can do something about it, and has done something about it. Obviously the producer who has preferred not to enter marketing and refining because of its risks - because there are tremendous risks in marketing and refining - obviously can't do anything about it. But that is part of the game; he decided not to go into marketing; that is his choice. As a matter of fact, any banker in the United States hardly will not give any money for marketing and refining activities, will not loan any money and will

not finance. In other words, the production seems to be the plum . As far as marketing is concerned, it is a headache, and if these people don't want to go into marketing, that is their problem. They could go into marketing and they could be in Western Canada. That wouldn't do much as far as marketing is concerned because markets are not based on consumption. I must be antiquated on that. It is an idea penetrating my head.

MR. PATTILLO: If production is the plum of the oil business, then wouldn't you expect any company that has Canadian production and has marketing facilities to be using Canadian crude to the utmost expense?

MR. CAMPO: Of course, and I say as far as I am concerned, that I have no brief with my competitors; I don't love them; they haven't made life any easier for me in my 35 years in the oil business. But as far as I can see, there is no evidence, they haven't done as much as they could to create those markets, where-ever it has been feasible to do so. But there is a breaking point where economics do not allow for expansion.

MR. PATTILLO: Were you here yesterday? Did you hear the evidence of Sun?

MR. CAMPO: No.

MR. PATTILLO: Well, the Sun Oil told us that they were presently taking into their Sarnia Refinery 5,000 barrels of Venezuelan crude which they were bringing up from Beaumont, Texas, and that before making the decision to do that they endeavoured, with the refiners in Montreal, to make an exchange so that that Venezuelan crude would come into Montreal and they would use Canadian Western crude to that extent, but they were unable to make such an exchange.

Now, assuming those facts to be correct, do you think that the maximum effort has been made to use Canadian crude?

MR. CAMPO: Obviously I can't answer that question because (a) I don't know the reasons why, I don't know anything about this proposal; I don't know the first thing about it.

MR. PATTILLO: You were never approached by Sun?

MR. CAMPO: As far as I know, never. And as far as I am concerned, if they had offered Venezuelan crude, it wouldn't fit with us; our refineries are particularly designed to handle certain crude, that is the optium for our refining. Depending on the type of crude that they would be prepared to offer - there are

a lot of ifs and buts.

MR. PATTILLO: Anyway, no proposal was made to you?

MR. CAMPO: No.

MR. PATTILLO: You have never heard of it?

MR. CAMPO: No.

MR. PATTILLO: Now, on page 5 you say that you recommend a high-level governmental approach to the United States. Now, from your experience in the oil business, your knowledge of the influence of the producer in the United States, in Washington, do you think that a high-level approach from the Canadian Government is going in any way to be successful?

MR. CAMPO: I don't see that there is anything unsound that Canada would propose, and if I didn't think there would be a chance of getting recognition of the Canadian viewpoints, I certainly wouldn't propose it, it would be ridiculous. But I can't say here definitely whether the approach would be successful or not successful. That is something I can't talk about; I don't know anything about it.

MR. PATTILLO: If the approach were successful, then we could reasonably anticipate that there would be a greater United States market for Canadian crude.

[illegible] Wash[illegible]

[illegible] from [illegible]

[illegible] way b[illegible]

Let's assume that it was unsuccessful. We have to look at both sides of the coin. Now, on that assumption.

MR. CAMPO: You are making assumptions that can be made of dangers that might arise; this could happen, the other might happen. All these forecasts of what might happen and might not happen almost always are completely wrong. I say there is a first logical step to be taken, so let's take that step first and find out what happens, and then we can cross the bridge when we come to it. We can analyse the situation on the basis of what is found there.

MR. PATTILLO: If you find the bridges down before you get there, you have to figure out how to get across the stream.

MR. CAMPO: You have the situation now that tanker rates have already shot up that nobody could forecast.

MR. PATTILLO: They have shot up in the last couple of days, haven't they. Can you tell us what the difference is?

MR. HANNA: No. There has been a firming of the markets. We don't have definite figures.

MR. CAMPO: But anything can happen from day to day. I have been a very substantial

shareholder of International Nickel. A year ago all the economists said nickel was the scarcest material in the World. Today Nickel has had to cut nickel 40 per cent, and all the brains didn't see that a year ago, and I have suffered the consequence.

MR. PATTILLO: So that you are not prepared to even look at the other side of the coin as to what we might do for markets for Canadian crude in the event that the United States could not be persuaded - -

MR. CAMPO: As I say, no, that is the most important thing and the first step to take, and from there on another look will have to be given. It may be the situation will be very tough still for other reasons, or it may be the situation will have improved for reasons beyond our control.

MR. PATTILLO: Now, on page 6 of your brief you say:

> "It has been suggested by some that the Montreal market should be economically accessible to Western Canadian crude were it not for the preference of the large international oil companies for using in the Montreal refineries of their Canadian subsidiaries and affiliates, low cost foreign crudes from politically unstable sources".

[illegible]

Would you agree with me that if you were running an international company with production facilities in the Middle East and in Venezuela and in Canada, and looking at the situation that exists in the Middle East today, having regard to the differential in development and finding costs in the three countries, it would be good business to get as much of your Middle East and Venezuelan crude into production as poss'ble and leave your Canadian crude for a later stage?

MR. CAMPO: Well, first of all, I can't talk about what these other oil companies might think or might not think; I can't think for them. But I know one thing, that setting the thing up ridiculously, to an extreme - for instance, take Canada and Petrofina. We have shareholders that are not shareholders - as a matter of fact, most shareholders, most of our capital is provided by shareholders other than Petrofina. We have a responsibility to those shareholders. We couldn't very well disregard responsibility to those shareholders. We couldn't disregard them entirely, and say, just to help Canadian Petrofina we are going to squeeze Canadian Petrofina to the limit, it just couldn't be done. I, as president, have a responsibility to the shareholders; I don't hesitate to correct a job if I don't like things.

If there were a situation like that I wouldn't be with Canadian Petrofina.

MR. PATTILLO: And you say all these other companies - not necessarily of them - have shareholders - -

MR. CAMPO: As far as I know. The only one who has no shareholders here is Shell. Canadian Oil, British American has shareholders.

MR. PATTILLO: McColl.

MR. CAMPO: Yes, McColl has shareholders.

MR. PATTILLO: And if the officers of their companies were looking at it as you look at it, then they say,"We just can't operate to the disadvantage of the parent company.

MR. CAMPO: We can't operate to the complete disadvantage of the shareholders.

THE CHAIRMAN: Mr. Pattillo, would it be inconvenient if we had a break here?

MR. PATTILLO: No, Mr. Chairman.

THE CHAIRMAN: Gentlemen, we will have a ten-minute break.

--- A short recess.

THE CHAIRMAN: Mr. Pattillo.

MR. PATTILLO: Thank you, Mr. Chairman. Mr. Campo, you say, at the top of page 7, that the most evident proof of the desire of the producers to sell Canadian crude is the capture of the Ontario market. You say:

"If there had been any desire to discriminate against our Western crudes, the Ontario market could and would now be supplied by foreign crudes".

The evidence that Sun Oil gave us yesterday was that the laid-down price of United States crude at Sarnia today was $3.74, the laid-down price of Venezuelan crude was $3.35, and the laid-down price of Canadian crude was $3.37. When you are speaking about this foreign crude which could supply the Ontario market, what source crude are you speaking about?

MR. CAMPO: Obviously about the Kuwait crude on which we have based all our calculations.

MR. PATTILLO: The Kuwait crude, in your opinion, could easily go into the Ontario market?

MR. CAMPO: On present day conditions it could.

MR. PATTILLO: Further on in that page you say that your refinery was built particularly to use Kuwait crude and that there would be a loss in the investment if you were required to shift over to Canadian crude. How long, in your opinion, will it take your company, operating on Kuwait crude, before

you could shift over to Canadian crude without loss of that investment?

MR. CAMPO: I will let Mr. Patton answer that.

MR. PATTON: I think in the order of ten years.

MR. PATTILLO: From now.

MR. FRAWLEY: It will take ten years to retire the extra investment you have in the Montreal refinery?

MR. PATTON: We have built a lot of equipment which we have to wear out.

MR. PATTILLO: You go on to say:

"Our choice of Kuwait crude with its high fuel oil content was made with due regard to market requirements in the Montreal area".

Would you please expand that for me, Mr. Campo?

MR. CAMPO: There is a high requirement of fuel oils and distillants in the Montreal area, proportionately higher than other sections of Canada, say, Ontario, and for that reason Kuwait crude is very suited to this area and to our particular operation.

MR. PATTILLO: Can you give us any figures as to the difference in the Montreal market and the Ontario market?

MR. CAMPO: We can supply those figures if

you wish. We could pick them out if you want them.

MR. TAKACSY: For the year 1957 -- this is, incidentally, the Dominion Bureau of Statistics refined petroleum products report -- the net sales in Canada of heavy fuel oil for that year in the Province of Quebec were about 16 million barrels, against around 11 million barrels in Ontario.

MR. PATTILLO: What about bunker fuel in the Montreal area?

MR. TAKACSY: That is the heavy fuel oil.

MR. PATTILLO: Are some of the large industries on the St. Lawrence bringing in their own requirements of bunker fuel?

MR. CAMPO: Yes, there are some who bring directly their own requirements. If they cannot find supplies locally, or if there is not enough production, or if they could get the other products cheaper, they would. But all the refiners here have to get rid of their heavy fuel oil and they do get rid of it.

MR. PATTILLO: But to your knowledge there is a certain amount of direct importation of heavy fuel?

MR. CAMPO: From time to time, yes.

MR. PATTILLO: It is not that the Canadian refiner cannot supply but that he cannot supply at a competitive price?

MR. CAMPO: At a competitive price, and

to a certain extent in individual instances, but obviously the Canadian refiner has to dispose of the heavy fuel oil and does dispose of the heavy fuel oil he has to dispose of.

MR. PATTILLO: Has the Montreal refiner sufficient heavy crude oil that he could supply all the requirements of this area without any importation if price was not a factor?

MR. CAMPO: I believe that from time to time it is possible to increase the production of heavy fuel oils by the use of heavier crudes.

MR. PATTON: That is true, but nobody tries to increase the heavy fuel oil. That is the thing you try to decrease pricewise.

MR. PATTILLO: That is the least possible?

MR. CAMPO: It depends on markets from time to time.

MR. PATTILLO: What I am really getting at is this. Supposing -- and I know you do not like me to suppose, but just suppose -- that the thing that you certainly do not want to happen did happen and that the Canadian Government enunciated a policy of quotas on importation, would that create any problem as to a source of supply for these large industries on the St. Lawrence that are presently buying bunker fuel from foreign sources?

MR. PATTON: I gathered from your question that, if we had quotas on import crudes,

could we supply the local industries? I think you should say: are there quotas on import products too? If products are free, they should certainly get supplies.

MR. PATTILLO: Yes, but if you had a quota arrangement not only on crude but on the products?

MR. PATTON: Then you definitely could tell the amount of materials available in the market?

MR. PATTILLO: Would there be any difficulty then for the Montreal refiners supplying the requirements of these large industries in the St. Lawrence region that are using bunker fuel in large quantities?

MR. PATTON: I think so.

MR. PATTILLO: Do you think there would be a problem?

MR. CAMPO: In other words, supposing -- I am thinking aloud -- supposing that the refining capacity is at the same level and the crudes used are lighter crudes, obviously there would be a certain amount less heavy fuel oil produced than there is today. In that sense, it might have an effect.

MR. PATTILLO: Now that I have got you agreeing to the supposing stuff, Mr. Campo - -

MR. CAMPO: You are very persuasive.

MR. PATTILLO: You make the statement

that a lighter crude with its higher gasoline potential yield would not fit the pattern of market requirements in the Montreal area.

MR. CAMPO: And I might add "our own requirements". Let us say that our refinery is operating at 30,000 barrels, using a certain type of crude with high fuel oil content -- that fits the market requirements as we see them in our own pattern of sales. Let us say we had to run 30,000 barrels with, say, lighter crude, we would have much more gasoline to dispose of, and that would present a very serious problem. It would be very difficult to do.

MR. PATTILLO: So that really you say that as long as the requirements of the Montreal market are what they are, even if Canadian crude could come here at a price competitive with foreign crude, it could not supply the market as well?

MR. CAMPO: It could be interpreted that way. Of course, there could be that way of doing things. In other words, there might be equipment put in, which would involve investments and so on. A study would have to be made of it, and I could not give you an answer offhand. But obviously the refiners in Montreal bring in the crude best suited to this particular market and the requirements of the market. That is a logical thing for them to do.

MR. PATTILLO: Let me put it this way. So far as your assessment of the Montreal market is concerned, if you were offered tomorrow Redwater crude at the same laid-down price as Kuwait, it would not be in your interests, in your judgment, to accept it?

MR. CAMPO: No, we would have to review the situation and see just what the consequences would be from the point of view of yields, our capacity to sell the products, etc. It might pay us, for instance, at some time to run the refinery at a lower capacity with higher yields of certain products. We get into a very involved calculation, and it has to be calculated at the time on the basis of the requirements from time to time. Those yields are not frozen. There is no particular yield that says you must all the time run your refinery on the basis of certain yields. You change those yields from time to time to fit the market requirements and to fit also the economics of it.

MR. PATTILLO: I would gather thatthat is one bridge which you have not seen fit to even attempt to cross at the moment.

MR. CAMPO: If I crossed all those bridges, I wouldbe pretty busy.

MR. PATTILLO: From what you have said, I gather you are anyway.

MR. CAMPO: Thank you.

MR. PATTILLO: On page 8 you are speaking about these tanker rates and what the differentials are in laid-down costs today. I gather that your company does not own any tankers.

MR. CAMPO: That is correct -- Canadian Petrofina.

MR. PATTILLO: Does Canadian Petrofina have any tankers under charter?

MR. HANNA: No ocean tankers of the type used for crude oil.

MR. PATTILLO: Does the parent company own tankers?

MR. HANNA: Yes.

MR. PATTILLO: Does it also hire tankers?

MR. HANNA: Yes.

MR. PATTILLO: Can you give me any idea whether those are time charters or spot charters?

MR. HANNA: That is a question, I believe, t hat would be better answered by the parent company.

MR. PATTILLO: Now then, do youknow anything about the average cost of transportation today? Is your company paying that?

MR. HANNA: We are paying.

MR. CAMPO: If I may suggest, you are asking about our actual costs. I would appreciate it very much if I could file that information with the Chairman.

MR. PATTILLO: I was not going to ask for the figures. I would ask that you do file those, but all I am trying to get at, Mr. Campo, is: if time charters or spot charters go up or down, who is making the profit or taking the loss? Is it your company or is it the parent company? In other words, are they going to lay down crude here at a fixed price, or are they laying it down at the posted price at Kuwait plus the actual cost of transportation for the particular market?

MR. CAMPO: Plus the competitive price on transportation. Let us go to the basic contract that we have; the basic contract that we have is, they have to supply us with crude and transportation at competitive prices.

MR. PATTILLO: So that price can be constantly fluctuating?

MR. CAMPO: That is right.

MR. PATTILLO: And does?

MR. CAMPO: That is right.

MR. PATTILLO: And if you file the information with the Chairman ---

MR. CAMPO: Certainly.

MR. COMMISSIONER HOWLAND: Mr. Campo, on that point, who sets the competitive rate? Who decides that, you or the parent company?

MR. CAMPO: We watch those rates from time to time. They are a published rate and we watch the markets from time to time, so nobody really decides. We are in a position to get certain transportation at certain cost and we think we can -- we say that is it.

MR. PATTILLO: How far ahead do you nominate for your supplies?

MR. HANNA: We nominate four months ahead of the current year. In other words, we will have to nominate in September for the following year's supply.

MR. PATTILLO: And it is for the whole

year's supply?

MR. HANNA: Our estimate of the whole year's supply.

MR. PATTILLO: So it is really the price that is prevailing in September that is the important picture for you; is that right?

MR. HANNA: We have at that time -- I suppose if we have any offers or indication of market supplies we would tell the parent company at that time such-and-such is available.

MR. CAMPO: And there have been changes some times in the rates even though there have been nominations.

MR. HANNA: There are automatic changes in the rates which follow market fluctuations.

MR. PATTILLO: Now, you state on page 8:

> "In order to eliminate effectively competition from foreign crude oils at Montreal, a system of import quotas and/or duties would be necessary."

Would you please tell us, Mr. Campo, why you make that statement so positively?

MR. CAMPO: Well, obviously, if crude can be brought here -- foreign crude -- at a much lower price, the only thing that will make the refineries in Montreal use that crude is compulsion; nothing else, and that compulsion can be brought about only by, as far as I can think -- there might be

other methods, I don't know what, but like quotas or prohibitive duties, or I don't know what system, what measures would be used -- but something had to be done.

MR. PATTILLO: Well, now, supposing you are right. Supposing the Dominion Government did make the decision they were going to put these quotas in, Mr. Brown, who is the protagonist for bringing Canadian crude to Montreal, says that the price of Canadian crude would, and in his opinion should, continue to be based, as it is today, on a laid-down price of foreign crude at Sarnia. Would you care to express your views as to how practical Mr. Brown's suggestion would be under these circumstances?

MR. CAMPO: I didn't quite get that, Mr. Pattillo. I am sorry.

MR. PATTILLO: Mr. Brown says that if you had quotas the price of Canadian crude should, in his opinion, and would in his opinion, continue to be based, as it is today, on the price of U.S. crude, Illinois crude, laid down at Sarnia. That would be the way in which you would determine the wellhead price for Canadian crude; it would be to take the laid-down price of Illinois crude at Sarnia, subtract your transportation charge from the wellhead to Sarnia and there is your wellhead price. Now, I am inquiring as to how practical

you think that is if you have quotas.

MR. CAMPO: If there are import quotas then anything is practical in the sense that it has been made absolutely impossible to do otherwise. Crude has got to be brought in; has got to reach here. If there is a prohibition on imports, it doesn't matter what the price of crude is established at, that is what the crude is, what the cost is. I don't quite see ---

MR. PATTILLO: What I am getting at is that if you have quotas on imports, in your opinion would the price be arrived at by looking at the laid-down cost of U.S. crude, which couldn't come into the country anyway, or would it be necessary for Government regulation on prices at the wellhead?

MR. CAMPO: I would think that might be the next logical step eventually. One thing leads to another. The minute you start touching the free play of economic forces many times we touch one thing and then something else develops, and the next step develops. That is exactly what we are scared of, that one cannot -- one step will lead to another, leading further and further to governmental control of industry. That is the very thing we are opposing in principle.

MR. PATTILLO: Now, the second suggestion you make on page 8:

"As larger and more accessible markets

will become available for Canadian crude in the future, unless quota restrictions were applied indefinitely, the industry would almost certainly suffer from the fact that it would be placed on a long-term basis of having its field prices of crude oil determined by competitive conditions at Montreal."

What bothers me is if you had quotas why would the competitive condition at Montreal be determining the field prices?

MR. CAMPO: That is why I say unless quota restrictions were applied indefinitely.

MR. PATTILLO: Right.

MR. CAMPO: That is the qualification. Obviously, foreign crude cannot reach Montreal -- well, that is it, as I say, unless quota restrictions were applied in that field.

MR. PATTILLO: What you are saying is that if you do not have quota restrictions and the industry builds the line, then you have got to have the guarantees of the refineries for the throughputs and you have got to have the producers signing up and agreeing to put the production through, and the price would then be hinged on Montreal?

MR. CAMPO: That is correct -- on competitive conditions in Montreal.

MR. PATTILLO: And that would affect not only the wellhead price for the oil coming to

Montreal but for all of the oil wherever it would be sold in Canada?

MR. CAMPO: Yes, that is right.

MR. PATTILLO: Now, do I follow, when you go on to say:

"We do not believe this to be in our best interests as producers of crude oil"

that you are there saying "If I am faced with the alternative of the present unfortunate situation continuing for the West, or bringing my crude to Montreal on a long-term basis, where the price will be fluctuasing with laid-down prices of foreign crude at Montreal, I would rather continue with the present situation"?

MR. CAMPO: Because I believe that certain conditions will reconcile themselves and there will be a better market for Canadian crude which are within economic reach of the crude.

MR. PATTILLO: One thing that I want to get at: now let us go to my suppose again. Suppose you are wrong?

MR. CAMPO: You have converted me to this supposing, so I will follow you.

MR. PATTILLO: And suppose you are wrong, suppose that the present conditions continue indefinitely, then would you consider that some positive step must be taken, or would you say let the conditions continue and let each person work out

his own salvation?

MR. CAMPO: Let me put it another way: supposing I felt the way we do, that these conditions continue, as I believe in the free play of economic forces, then I would have to decide at this moment that maybe my prices of crude at the wellhead are too high; the prices of crude are too high. Maybe I would have to come to that conclusion by force of circumstances. If I felt that, then I would advocate a reduction in price because that would be the logical way to get the markets, but to get a pipe line through and then bring that condition about eventually by meeting competitive conditions by force and not by our best judgment is the thing I object to.

MR. PATTILLO: You say the first thing to do would be to reduce prices?

MR. CAMPO: That is right.

MR. PATTILLO: And then see how much of the market you could capture by doing so?

MR. CAMPO: That is right. That is the free play of economic forces.

MR. PATTILLO: Now, why, as a producer, with this cutback that you have had for a year, haven't you done that?

MR. CAMPO: Pardon?

MR. PATTILLO: Why as a producer who has had this substantial cutback in production for a

year haven't you done it?

MR. CAMPO: As far as we are concerned right now, as I say, we haven't asked for any help from anybody. Now, if we haven't done so that is because it doesn't suit us. I am not yelling for help.

MR. PATTILLO: Well, let me see if I understand exactly what you would say to these producers who are yelling for help.

MR. CAMPO: That is their affair, what they want to do or what they see fit to do. I am not talking for them.

MR. PATTILLO: Then what would you say to the Province of Alberta that is also very strongly pressing for this pipe line?

MR. FRAWLEY: Of course, I know that my friend is saying that in a most friendly way, but I would like my friend to remember, as I am sure he does, that Premier Manning indicated in the course of evidence by clearly setting out in his brief and ending up with the suggestion that if all other efforts fail to find a market for our crude, then we should have the Montreal pipe line. I am sure that my friend Mr. Pattillo is not saying anything more than that, but perhaps I can be pardoned for putting that on the record, just at this place.

THE CHAIRMAN: A clear statement of the

position of the Province of Alberta.

MR. PATTILLO: Let me say this: do you think that if the present situation continued that before a reduction in price was attempted, any consideration should be given in making a change which might cause future development to be more in line with market requirements than the present situation?

MR. CAMPO: I didn't quite get that.

MR. PATTILLO: Well, you told us that the present situation in the west since 1953 has been that development has been taking place with regard to market requirements and I assume you would agree that as long as that condition continues and the markets do not increase that condition is going to become more and more aggravated?

MR. CAMPO: True.

MR. PATTILLO: Now you say, well if conditions continue for some time and there seems to be no immediate relief, one of the things that may have to be considered is reduction in price. I am also asking whether prior to making such a reduction in price, in your views should any consideration be given to changing the method of development so that it is brought more in line with market requirements?

MR. CAMPO: That may be true. There is only one solution to a problem, I have different approaches to the problem and they would have to be studied very carefully.

MR. PATTILLO: Well, you agree the problem is there today?

MR. CAMPO: No doubt about it it is there.

MR. PATTILLO: Well, who should be doing this study?

MR. CAMPO: The companies so-called, the industry, and I am sure the industry from time to time will take a good look at things. At least, we do; we watch the situation all the time from time to time. I do not know if I get your question. Probably I do not.

MR. PATTILLO: Well, the thing that is bothering me as a person completely foreign to the industry is, if you have a situation existing for a year and you cannot see any immediate alleviation of it, what you, as a member of the industry, have been doing in that year to come up with possible solutions.

MR. CAMPO: As I say, we expect - first of all, we cannot expect always to live in bonanza; we know in business that we have ups and downs. We are not the only business suffering right now. The copper industry, not only are they affected by a price reduction but they cannot sell the product at the lower price and the mines are closed. There are all kinds of situations like that that happen and we have to expect those things. I have not been trained to expect always that things are going to be very easy and go my own way full blast all the time. That cannot be expected. We feel this is one of those periods in which we suffer a little bit. We do not like it, we will try to do everything

in our power to get ourselves out of this suffering. That is about all I can say at this time.

This is not the first time. I remember in my time when oil was selling in Texas for 10 cents a barrel and that was a really rough time. I do not call this a real rough time; it is tough.

MR. PATTILLO: It may sell for that amount in Alberta if you take out proration.

MR. CAMPO: Well, if you take out proration, may be.

MR. PATTILLO: Now, on page 10, at the top of the page, you say because of the situation as you see it as to the competitive picture of Western crude and foreign crude at Montreal:

> "The Federal Government would either have to provide the necessary guarantees or participate directly in the financing and construction of the pipe line".

Now, Mr. Campo, if the Federal Government of Canada deci ed that oil pipe lines were merely facilities for transportation of oil from the producing area to the market area and that in that respect they are no different than highways or railways and that accordingly in the interests of the national economy the Federal Government would build and acquire all pipe lines

in Canada and operate them without any guarantees from any of the refiners or the producers but simply giving it for the purpose of markets, if that was a laid down policy and in fact the line was built and other existing lines acquired, do you still think that it would not be possible to put Canadian crude into Montreal competitively?

MR. CAMPO: Well, firstly, if the Government disregards costs completely and it is prepared to lose money by providing transportation for nothing, then it could be done. The actual fact is that the construction of a pipe line and its operation involves certain costs. Even eliminating any profits, we still cannot say that Western Canadian crude could, under present conditions, reach Montreal competitively. As I say, the Government can do anything, all I am expressing is my own opinion.

MR. PATTILLO: I understand.

MR. CAMPO: I would not like to see the Government do those things, but if they do then that is it.

MR. PATTILLO: Well now, I would like to ask you this question: Supposing the Government did decide it was going to adopt such a policy and provide the facility which you as a refiner could use as you saw fit, do you then think that if such a facility was available that

[illegible]

the Western producer of oil would not bring his price down so that he could get a Montreal market?

MR. CAMPO: Probably. I say as a refiner that we would be delighted to use Western Canadian crude on a competitive basis because it is obviously in our interests to do so.

MR. PATTILLO: Well, if that is the only way in which you could get Canadian crude into the Montreal market, by having the Government build a line and operate it as a facility, what objection would you have as a man in the oil business to the Government taking that action?

MR. CAMPO: The very fundamental objection which is purely an objection on principal and philosophy: I do not believe in the Government entering those fields.

MR. PATTILLO: I would gather you do not think the Government should be in the railway business?

MR. CAMPO: I do not think so.

MR. PATTILLO: That is perfectly fair, I am not quarreling with that view. Again I must ask you a hypothetical question: Do you think, from your experience of the oil business that if the Government of Canada did build a pipe line at its own expense to Montreal that there would be

any necessity then for the Government to also put in force a system of quotas in order that Canadian crude move to Montreal?

MR. CAMPO: It all depends if at once they transport oil for nothing, there might not be any need for quotas. Again it comes back to this question of what that crude, at what price that crude would reach Montreal compared to foreign crude.

MR. PATTILLO: I will agree with you about that, but I have in mind - what I really was trying to get at, I am thinking about the producer in Alberta who has locked-in production today, do you not think that if you had a means of putting that crude into Montreal that existed right now that rather than have that locked-in production which is not returning anything he would reduce his price and move that crude to Montreal?

MR. CAMPO: He might.

MR. PATTILLO: Is it not likely he would.

MR. CAMPO: I do not know, I hate to talk for somebody else - I say he might.

MR. PATTILLO: Now, you see what I am searching for, Mr. Campo, is this: The oil industry has said, "We abhor Government interference, we do not want Government regulations, we

cannot see how you can have a pipe line to Montreal and bring Canadian crude to Montreal unless you had Government quotas and that would probably lead to Government control price at the wellhead and everything which we don't want".

MR. CAMPO: That is right.

MR. PATTILLO: And this would preclude risk capital coming in which would be all wrong in my opinion, so that I am looking to see whether there might be an alternative to that, that the Government in trying to decide on policy might consider and supposing the Government walked into you tomorrow as a producer which has a lot of locked-in production and said, "We have made a decision to build a pipe line to Montreal at Government expense and we propose to charge tariffs on that which will be arrived at by the cost of service method and one of the costs which we will eliminate in that way will be Income Tax and we will have a substantially lower cost of transportation than any other private industry could possibly have". Now, as a person in the oil business I am asking you - I am still assuming this conversation with the Government - do you think that once I have built that line and put on that tariff in that manner that I am going to be faced also with the problem of putting on quotas in order to move in Canadian crude to Montreal or do you think as a

producer that you would rather get return from your locked in production than keep it in the ground?

MR. CAMPO: Within certain limits, of course. There would be -- it all depends to what I would have to reduce my price. It might pay me very well, and it will pay me very well to let that production go.

MR. PATTILLO: It becomes a business assessment, then, whether it pays you to reduce your price a bit and move your oil or whether you should leave it in the ground and wait for a better day.

MR. CAMPO: That is right.

MR. PATTILLO: Well, let me put this to you, then: from your experience in the oil business, do you think that the present situation entitles any of the producing industry to reasonably expect the government to do just that, build the pipeline for the purpose of providing a facility?

MR. CAMPO: I cannot understand anybody who believes in the system of free enterprise and who has engaged in business ever wanting a government to enter the field of private business, and, in principle, I repeat that it is something I cannot understand. I think there is more danger to our way of living oue to internal weaknesses of that type than anything else there can be, because, in my opinion it involves further and further steps towards control, state ownership, state socialism.

MR. PATTILLO: So your answer would be

to government, "I will leave my oil locked in the ground rather than have you build a pipeline?".

MR. CAMPO: I am in business and I am prepared to take my risks. I have to be smart enough to run my own business. If I can't run my own business, if I can't make any money, I can get out; nobody compels me to stay in business.

MR. PATTILLO: On page 12 you make a statement which doesn't seem to fit with what you have just been saying.

> "Finally, while not asking for such help ourselves, we would not object, if the Canadian Government feels that it is necessary and in the national interest to support the weaker members of the producing industry, to measures that would make available temporary financial assistance for those requiring it."

MR. CAMPO: That is a contradiction, and, as I say, I am not asking it for myself, I am simply saying -- the thing that puzzles me is, as I say, in industry the majority doesn't ask for help, does not require help, and all of a sudden there seem to be so many doctors wanting to cure this industry of imaginary or otherwise sicknesses and everybody is trying to help this poor industry. Maybe there is something wrong with me or the majority of the industry; maybe there is something wrong with these other fellows who are yelling for help. If there is

something wrong, which I don't agree with at all, incidentally, well, help the individual if you have to help, if you think it is inthe national interest to do it. But you can hardly say it is in the national interest; you couldn't justify that. It is entirely out of my hands, and I agree with you that there is alittle bit of contradiction there; you say either you believe one thing or you don't.

MR. PATTILLO: I was just curious about what measures you had in mind.

MR. CAMPO: Just a little relief valve in there, let us say, in case the pressure got too great.

MR. PATTILLO: A little vaseline.

MR. CAMPO: That is right.

MR. PATTILLO: But you haven't given any thought to where it ought to be applied.

MR. CAMPO: Well, we won't go any further into that.

MR. PATTILLO: Now, as a producer in Western Canada -- top of page 13 --

> "We think that government interference with the energy industries should be limited to what is necessary for the protection of the public interest. In our view, the public interest is adequately safeguarded by the existing authorities and we are not aware of any strong public sentiment to the contrary."

At the present time the Government of Canada, under its present laws, has not seen fit to, in fact, regulate the tariffs of oil pipelines. Do you think that a failure to regulate tariffs of oil pipelines is or is not in the national interest?

MR. CAMPO: A failure?

MR. PATTILLO: A failure to regulate.

MR. CAMPO: It is in the national interest?

MR. PATTILLO: Yes.

MR. CAMPO: Why a failure? Why call it a failure, whether it is in the national interest or not?

MR. PATTILLO: Do you think that oil pipelines should be allowed to charge tariffs which are not subject to regulation?

MR. CAMPO: As far as I am concerned, I repeat, I believe that pipelines, just like anything else, should be left to find their own levels of prices and everything else. I believe in the minimum of regulations and the minimum of government interference. We go back to the same basic thought all the way through. Until such time as there is some evident abuse or national requirements in the public interest -- it would have to be a very strong requirement before anything is done.

MR. PATTILLO: What I have in mind is this: certainly we have regulations today of telephone rates, we have regulation of rates chargeable by

the railways, we have regulation of other rates of conveyance. Now, in the light of that, is it in the national interest to regulate the rates chargeable by pipeline companies or should they be treated differently?

MR. CAMPO: Well, could we say, is there any situation which requires protection for the public interest? Has there been any abuse? If there has been no abuse and the pipelines operated on proper tariffs, why then regulation?

MR. PATTILLO: You do regulate if necessary, but until such time as it is obvious that it is necessary, you don't think there should be regulation?

MR. CAMPO: That is right.

MR. PATTILLO: Now, in your opposition to the national energy authority, you say that no useful purpose would be served by the creation of a further agency or authority to exercise some portion of the powers now in the hands of existing agencies. But don't you think that it may be desirable that there be a correlation in a centralization of all the energy requirements so that you wouldn't have one group dealing with something without paying any regard to what the other group might be doing with its branch of the authority?

MR. CAMPO: Frankly speaking, I am not very well versed in this particular section of the thing; but I am against the formation of Board after

Board after Board to fix this, to fix that, to fix the other. All I can see is the trouble ahead. But maybe Mr. McLeod would like to answer that.

MR. McLEOD: Well, I think our view is -- you have to accept the premise that this superagency is going to solve the problems. It is our view -- and I must confess that our company has, with its history, short history, as you know, no firsthand experience of these agencies, and it is perhaps improper for us to express a strong view on the matter. But our view is this, that there is no evidence that a superagency will function effectively; there is no evidence, I think, expanded that a superagency can be created. We feel that the government has already had enough agencies working in the field at the present time. We think, within their limits, they have functioned reasonably well; we don't want to see them.

MR. PATTILLO: Mr. McLeod, do you agree that if there had been some central authority charged with the responsibility of keeping up-to-the-minute data as to accumulation of inventories, picking up of markets, cutting down in nominations, perhaps the situation which developed last fall, although it couldn't have been avoided, might not have been as acute as it was if industry had had such information available to it?

MR. CAMPO: I don't think it would have

helped very much in a situation like that; I really don't think so.

MR. PATTILLO: Because I think the fact was that people went on nominating for oil and then, all of a sudden, there was a very drastic cut.

MR. CAMPO: No matter if there are ten Boards, they have to make certain forecasts of consumption, forecasts of this and that, and the best forecasts always go haywire at certain times.

MR. PATTILLO: One of the inherent weaknesses in man?

MR. CAMPO: Yes.

MR. PATTILLO: Mr. Campo, when you are filing this information with the Chairman, would you please disclose the name of the company concerned?

MR. CAMPO: Yes.

MR. PATTILLO: Do you think, Mr. Campo, from your experience in the oil business, and particularly during the last war, that the national security and self-sufficiency of Canada would be improved if Canadian crude could be brought to Montreal?

MR. CAMPO: I am not really sufficiently versed in strategic affairs, sufficiently qualified to say, but it would seem to me that, with the St. Lawrence Waterway and the evident consolidation of the United States and Canadian areas which would occur in time of war, in time of emergency, I don't

think there would be very much improvement to the strategic situation. As I say, it is purely from an ignorant - -

MR. PATTILLO: From your experience in the oil business and - -

MR. CAMPO: That is right.

MR. PATTILO: Thank you. Those are all the questions I have, Mr. Chairman.

THE CHAIRMAN: I suggest we adjourn for luncheon and reassemble in this Council Chamber at 2.15 this afternoon.

---Whereupon the proceedings adjourned at 12.30 p.m., to resume at 2.20 p.m.

---On resuming at 2.15 p.m.

THE CHAIRMAN: The Commission will now resume its hearing.

Mr. Pattillo, I believe you have finished?

MR. PATTILLO: I have concluded.

THE CHAIRMAN: Mr. Frawley?

MR. FRAWLEY: Thank you, Mr. Chairman.

Mr. Campo, when you went to the Belgians for financing, you made an agreement with them?

MR. CAMPO: As an individual or corporately?

MR. FRAWLEY: I don't know. You had something formed at that time? Did you have an incorporation formed at that time?

MR. CAMPO: No.

MR. FRAWLEY: I am not being particular about that. Let us say you as an individual, representing others as well as yourself, made an agreement with the Belgian Company under which agreement your proposed refinery was assured of a crude supply?

MR. CAMPO: That is right.

MR. FRAWLEY: Because that was your concern?

MR. CAMPO: That is right.

MR. FRAWLEY: And on the other side the

[illegible]

Belgian company was assured of a market also for the crude which it buys and sells in connection with its business?

MR. CAMPO: Not exactly assured. They could meet competitive conditions.

MR. FRAWLEY: That is right, and that was their business, buying and selling crude oil in the competitive world?

MR. CAMPO: Yes.

MR. FRAWLEY: And those people pay income tax?

MR. CAMPO: That is right.

MR. FRAWLEY: So they were buying and selling crude oil and making, or endeavouring to make money?

MR. CAMPO: I suppose that is the general idea.

MR. FRAWLEY: That is right. So it was a good deal for them, and it was certainly a good deal for you?

MR. CAMPO: Naturally. Otherwise I would not have gone into it.

MR. FRAWLEY: And that arrangement continues until now?

MR. CAMPO: Yes. May I add that one of the governing reasons for Belgian Petrofina being interested in my scheme, in my programme, was the fact that they wanted to come into the

North American Continent, into this hemisphere, because they felt they had too many eggs in one basket in Europe. They wanted to diversify the geographical risk.

MR. FRAWLEY: Yes, and are also in the business of operating tankers? They own and operate tankers?

MR. CAMPO: Yes, that is right.

MR. FRAWLEY: So this arrangement with you also gives them cargoes for their tankers?

MR. CAMPO: Yes.

MR. FRAWLEY: So that is the advantage to them, as I see it. Now, let us see how effectively it works. You say in your brief that your company has to give Petrofina S.A. the first right to supply its requirements on equal conditions.

MR. CAMPO: That is right.

MR. FRAWLEY: So that extends even to Calvan and Western Leaseholds Limited, to your arrangements with them? I will put it more clearly. Suppose your board decided tomorrow that they would buy and take into their refinery somewhere the crude produced by Calvan, you would still have to talk that over with Petrofina S.A.?

MR. CAMPO: How could we today take the crude that is entirely produced by Calvan? We could not.

MR. FRAWLEY: You have no physical way of putting it into your Montreal refinery?

MR. CAMPO: Not only that, but we could not buy crude exclusively from Calvan.

MR. FRAWLEY: Because of the conservation arrangements in Calgary?

MR. CAMPO: That is right.

MR. FRAWLEY: But, assuming with me that you could do that, you could not do it until you had first talked it over with the Belgian company?

MR. CAMPO: Obviously.

MR. FRAWLEY: And that also extends to Western Leaseholds?

MR. CAMPO: Yes.

MR. FRAWLEY: And it even extends to your own crude?

MR. CAMPO: That is right.

MR. FRAWLEY: There is a simple point there, which is perhaps an obvious thing. When you say that the management of Canadian Petrofina is entirely Canadian, it is entirely Canadian but within the limits of the supply contracts?

MR. CAMPO: Without limits. The limits of the contract are limits which were placed by the management of Canadian Petrofina because it was thought it was in the best interests of Canadian Petrofina. We could not raise money in

Canada unless we had a sure source of crude.

MR. FRAWLEY: That is right. Perhaps we are not saying different things. All I say is that you must manage your company, and the Canadian board manages the affairs of this company within the limits of the written word in that contract?

MR. CAMPO: That is so, but at the same time those limits were placed by the management of Canadian Petrofina.

MR. FRAWLEY: It would not sign a unilateral contract?

MR. CAMPO: Yes, very definitely.

MR. FRAWLEY: You just dictated the terms?

MR. CAMPO: No, we said simply this. I was a free agent at the time. I said, "If you want me in this setup and if you want to come in, those are the conditions on which I think I can come in and do a job for you".

MR. FRAWLEY: As a matter of fact, though, this Belgian company is doing pretty well, is it not?

MR. CAMPO: To date they have not had any dividends out of here. They put some millions of dollars in but they have not had any return.

MR. FRAWLEY: Is it doing as well as Petrofina?

MR. CAMPO: Which?

MR. FRAWLEY: The Belgian company. The

Canadian Petrofina.

MR. CAMPO: Outside of Canada they are doing quite well.

MR. FRAWLEY: Yes, and it is a company with worldwide operations?

MR. CAMPO: Yes.

MR. FRAWLEY: You say on page 4 -- and you will have to bear with me because in the nature of things my notes are somewhat disconnected and I will have to be doing a certain amount of jumping around, and I am sure you will bear with me for old times' sake if nothing else.

MR. CAMPO: I think you know very well that there is no need for you even to worry about that.

MR. FRAWLEY: You say there that there is an inorrect assumption. Mr. Pattillo asked you about this this morning, but I have a different aspect that I want to ask you about.

You say that there was an incorrect assumption made that our markets would continue to expand at the exceptionally fast rate achieved in the earlier years. Might I very politely ask you what estimates you saw to warrant you making that statement?

MR. CAMPO: Purely facts. In other words, is it not a fact that today the production capacity is ahead of the available market? That is it.

MR. FRAWLEY: Did you have in mind that there is similar over-production in Texas?

MR. CAMPO: Yes, I know that very well.

MR. FRAWLEY: And in the Middle East and even in Venezuela?

MR. CAMPO: In the world.

MR. FRAWLEY: Yes, there is nothing very peculiar in the fact that we have over-production in Alberta?

MR. CAMPO: Not at all.

MR. FRAWLEY: Over-production is not in itself and per se a bad thing?

MR. CAMPO: Per se, no.

MR. PATTILLO: I think we should have the record straight. I do not think the evidence was that there was over-production in Venezuela or in the Middle East. I thought they cut back their production to the markets, but that it was in the United States and Canada where they could not do that.

MR. CAMPO: That is right. It was world-wide. That is why I added "worldwide".

MR. FRAWLEY: All I can say about that, Mr. Chairman, is that my instructions are -- and I am sure Mr. Pattillo will be very glad to hear me say it -- that there is over-production in Venezuela at the present time. Just assume that. That may be easily checked. If the Commission considers it

important enough they can make their own inquiries. You know that they have dealt with, or tried to deal with, the over-production in Texas?

MR. CAMPO: Well, I know something about it but I do not know if I have first-hand knowledge of things and I could not discuss intelligently what they have done or what they have not done, or what they think they should do or what they think they should not do.

MR. FRAWLEY: Let me suggest to you -- and I am sure you know this as well as I do -- that the independents spearheaded a very vigorous campaign which resulted in a voluntary restriction of exports programme?

MR. CAMPO: It could be.

MR. FRAWLEY: I do not know anything about the state of the law in Venezuela but I would not be too surprised if there were some import restrictions in Venezuela, if we could think of such a thing.

MR. CAMPO: I do not know if there are, but I cannot imagine that we would want to export oil to Venezuela; so I do not know just what ---

MR. FRAWLEY: What troubles me is why other countries can become nationalistic -- which is not a word I like particularly -- but Canada must not. Canada must leave it all to the laissez faire policy you advocated this morning.

MR. CAMPO: If you stay on that basis, there are countries that are also socialistic and communistic. So we should say, "Why should not Canada follow their example, too?"

MR. FRAWLEY: Let me put this to you, apropos of the same thing, apropos of what I call -- and I hope you will not take any offence -- the policy of letting the devil take the hindmost.

Let me put this to you: why does the Government of Canada not say to the textile industry of Canada, "Stop complaining about the Japanese textiles coming in here and stealing your markets. Just go out of business, if you have to."

MR. CAMPO: Of course, I am not talking for the textile industry. I do not know what their ideas are, but actually there is a fundamental difference between the textile industry and the petroleum industry.

MR. FRAWLEY: I am sure there is.

MR. CAMPO: It is this one. The textile industry, rightly or wrongly, has asked for help. The majority of the oil industry does not want any help.

MR. FRAWLEY: Let us see who this majority is. It is too bad that you sort of force me into these considerations, but who are the people who do not want to find the Montreal market?

MR. CAMPO: I have read the reports of

the hearings and so on and it seems to me that the majority of the industries do not require any help or asked for any help.

MR. FRAWLEY: I must not let you simplify that in any way.

THE CHAIRMAN: Mr. Frawley, I think the Commission has a fair idea what the answer to that question is.

MR. FRAWLEY: I am sure, sir.

THE CHAIRMAN: I do not think we need to proceed.

MR. FRAWLEY: Well, it is true, sir, that a good deal of what I am trying to develop with Mr. Campo I know and I am conscious of that, and it certainly tempers the nature of my questioning because there is very little at this late stage of the Commission's deliberations that is coming to them as a startling new fact. I am sure of that. But I just want to develop this anti-nationalism of yours.

MR. CAMPO: Oh, no. I disagree with you. "Anti-nationalism" is a bad connotation. I feel very strongly for Canada, for our country.

MR. FRAWLEY: What is it that induces the Government of Canada to help Nova Scotia coal reach Toronto?

MR. CAMPO: Evidently the Government of Canada has decided that certain things have got to

be done for that particular area, and there was a public demand there for certain things. I am not going to argue pro and contra, because it is outside my business.

MR. FRAWLEY: That is true.

MR. CAMPO: That is the Government's affair.

MR. FRAWLEY: You say, then, does it depend on the loudness of the voices being spoken to the Federal Government?

MR. CAMPO: It is not a question of the loudness of the voice.

THE CHAIRMAN: Oil would be in Ireland from Western Canada if it depended on that.

MR. FRAWLEY: Another thing that you said this morning that I must say struck me was this. Mr. Pattillo was putting some situations to you, and one was restricting development, and, while I made a very brief note, I think you did express the view that probably serious consideration should be given to restricting the development of the oil fields. Roughly speaking, is that what you said?

MR. CAMPO: I said restriction -- ? Consideration by whom?

MR. FRAWLEY: By the people who are producing or by governmental agencies to the extent that they may be able to control development.

MR. CAMPO: If governmental agencies do produce by some artificial method a situation where there is over-development, yes, I suppose that might be a good thing to do.

MR. FRAWLEY: That is just about what I thought you said this morning. Now, if you do not mind, I put it to you as being utterly ridiculous to control the production of Alberta when that open door in Montreal is allowing in 300,000 barrels per day of Venezuelan crude. What do you think about that?

MR. CAMPO: Will you repeat that?

MR. FRAWLEY: I will repeat it to you. I suggest to you, Mr. Campo, that it would be completely ridiculous to expect the oil wells in Alberta to be shut back and at the same time leave an open door in Montreal to 300,000 barrels a day of foreign crude.

MR. CAMPO: May I be rude enough to ask you why?

MR. FRAWLEY: Why what?

MR. CAMPO: Why?

MR. FRAWLEY: Why it is ridiculous?

MR. CAMPO: Why do you think it is ridiculous?

MR. FRAWLEY: You are entitled to question me, I suppose, although that wasn't the original idea. I put it to you, Mr. Campo, that that would be a very wrong thing in Canada to shut back our own Canadian production and allow Venezuelan production to swim into Montreal.Is it not at 300,000barrels a day?

MR. CAMPO: Of course, you think that it would be against the national interest. That is your opinion. You are entitled to it, but somebody else might say that the principal way of serving the national interest is to supply energy to Canadian consumers at the lowest possible cost.

MR. FRAWLEY: But you wouldn't -- it wouldn't make any difference to you that the oil that came in from Venezuela was concession oil and the oil that came from Alberta or produced in Alberta - -

MR. CAMPO: If it is economically sound not a fellow could argue it is far better to use foreign crude at low cost than to deplete your

national resources. I mean there are so many arguments; I don't say I agree with that point of view, but there are so many ways of looking at this thing. What is the national interest? I would say the national interest is to supply something as basic as energy at the lowest possible cost to the Canadian community and to Canadian consumers. That is the basic national interest.

MR. FRAWLEY: I put it to you then if that is so, Mr. Campo, we should tell the Canadian textile industry to just pack up and just go tell the Nova Scotia - -

MR. CAMPO: Why do you talk about the textile business? I have nothing to do with it, Mr. Frawley. If I did, I could talk about it intelligently.

MR. FRAWLEY: I must not talk about the nickel business either to you.

MR. CAMPO: The nickel business yes, I know something about it.

MR. FRAWLEY: Now, on page 14, the very last four words in your brief are: "and that will suffice". You say: ". . . the exercise of powers within each field will fall into the purview of the official bodies already existing, and that will suffice." Is it any concern of yours, or is it any concern to the national economy that 63 per cent of Alberta oil production is now shut back?

MR. CAMPO: I repeat if the oil industry, which is primarily interested in the development -- who put the capital investment in those areas and who is primarily interested to get back a return on his money, I say that the oil industry is the one that is in the best position to determine what is the best thing to do to protect the investment they have in that part of the country.

MR. FRAWLEY: All right, let me discuss that.

MR. CAMPO: And they are qualified to do it.

MR. FRAWLEY: All right, one of your associates this morning told us that you were now operating at 24 per cent of producibility, your own company.

MR. CAMPO: It hurts.

MR. FRAWLEY: What enables you to do that, Mr. Campo?

MR. CAMPO: Nothing.

MR. FRAWLEY: Does the balance sheet - -

MR. CAMPO: We suffer. Our balance sheet is very, very sick.

MR. FRAWLEY: Now it isn't something I have any particular business to talk about, but what did the profit and loss statement of Canadian Petrofina show for 1957?

MR. CAMPO: About one million seven, wasn't it? One million seven, $1,700,000.

MR. FRAWLEY: Of profit?

MR. CAMPO: Profit.

MR. FRAWLEY: Now, is it out of that profit that you are able to stand the pressure of having to put up with 24 per cent of producibility?

MR. CAMPO: That profit is not -- one million seven hundred is a very poor return on the investment that our shareholders have in it.

MR. FRAWLEY: You don't think there is much leeway there?

MR. CAMPO: You must consider the fact that we have been in operation only four years, four and a half years. We haven't had a chance to build up any reserves, and so on and so forth. We are in a peculiar position of our own.

MR. FRAWLEY: I put it to you, Mr. Campo, that if you were operating as A.F. Campo Petroleum and you did not have the resources of Canadian Petrofina or indirectly the resources of Petrofina S.A., that you would not be able to stand that kind of pressure, to have 24 per cent of your production sold, of your producibility sold?

MR. CAMPO: That might be entirely true, but then I say -- I come back to this: when anybody

goes in business goes in business with eyes wide open. He should know what risks it takes, he takes, or what risks he doesn't take. He expects to make money.

MR. FRAWLEY: And you say, you said this morning this is my problem and I will solve it?

MR. CAMPO: That is right. If I cannot solve it I won't be there.

MR. FRAWLEY: I suggest you are solving it because you have the Belgian Petrofina behind you?

MR. CAMPO: That is your suggestion, but I do not agree with you. You are entitled to your opinion.

MR. FRAWLEY: It is not for me to say. It is for the Commission in the end if they think that. I suggest to you, do you feel there is a place in the Canadian petroleum industry for the small independent?

MR. CAMPO: Surely, he is there, isn't he?

MR. FRAWLEY: He is there at the moment, yes. Now, Mr. Pattillo was discussing with you the way in which the price of crude oil is presently fixed in Canada, and you agreed with him that it is fixed at Sarnia less the pipeline transportation from Edmonton to Sarnia? That is roughly the situation?

MR. CAMPO: I suppose that is the situation, where the Western crude may compete from that source.

MR. FRAWLEY: That is the way the Interprovincial, movement through the Interprovincial pipeline was originally designed, that the Illinois base and crude would be backed out and Edmonton crude would meet it. What I do not understand, Mr. Campo, is what is the difficulty about taking that 256 which is today the posted field price in Edmonton, arrive at a price minus freight, arrive at a Montreal price by taking 256 and add 48 cents or whatever the transportation cost would be?

MR. CAMPO: There isn't anything wrong with that. The only thing is when it lands in Montreal it is not as cheap as the other crude.

MR. FRAWLEY: That all depends - -

MR. CAMPO: That is the only thing wrong with it.

MR. FRAWLEY: That all depends on what you mean by your comparative crude oil costs that you list on page 9 because this morning you were asked by Mr. Pattillo and you agreed to file your actual laid-down cost?

MR. CAMPO: That is correct.

MR. FRAWLEY: Well now, what does page 9 mean, because I was naive enough to think that these were your actual laid-down costs depending on whether you were getting minus 40?

MR. CAMPO: Mr. Frawley, I would never call you naive. All that I have quoted is simple

facts. It is the posted crude oil prices of Kuwait plus the present transportation costs which are USMC minus 55 per cent. Those are the figures that I have quoted.

MR. FRAWLEY: You have also quoted minus 40.

MR. CAMPO: That is only an example in case that there were variations in freight rates, then we had the table there established so nobody could get confused.

MR. FRAWLEY: Well then, do I understand, now perhaps this is being oversimple, but do I understand all you are going to file is something to show USMC minus 55?

MR. CAMPO: No, I said I would file our cost.

MR. FRAWLEY: Your actual?

MR. CAMPO: Yes.

MR. FRAWLEY: Then the actual may not be minus 55?

MR. CAMPO: May not be.

MR. FRAWLEY: Or may not be minus 40?

MR. CAMPO: God knows.

MR. FRAWLEY: May be better even?

MR. CAMPO: The Commission will know.

MR. FRAWLEY: I see, so this then is a little exercise in arithmetic, to see what it would be if you paid minus 55 or if you paid minus 40 but you are not saying what you paid?

MR. CAMPO: No.

MR. FRAWLEY: Then you are saying you do pay $1.85?

MR. CAMPO: That is right. The market today is $1.85 plus transportation at certain published for a certain available rate.

MR. FRAWLEY: As a matter of fact all that your actual cost will show, as distinct from page 9 in your brief is what the actual USMC is?

MR. CAMPO: That is right. No, what the actual freight is.

MR. FRAWLEY: Yes, yes, and the basis of the USMC, the base you actually pay?

MR. CAMPO: That is right.

MR. FRAWLEY: I suppose you pay varying amounts? You paid something last month and something else the month before, is that the way it goes?

MR. CAMPO: Sometimes it changes.

MR. FRAWLEY: And when you said this morning that you had to requisition the Belgian Company for your supplies, they give you no guarantee of what the USMC will be?

MR. CAMPO: No.

MR. FRAWLEY: Of the date they ship a particular cargo?

MR. CAMPO: That is right.

MR. FRAWLEY: Tell me something about Canadian Fina if you can, Mr. Campo.

MR. CAMPO: I can't. Canadian Petrofina has nothing to do with Canadian Fina.

MR. FRAWLEY: Is there any real or apparent similarity between the two companies?

MR. CAMPO: No.

MR. FRAWLEY: Are they both subsidiaries of the Belgian Company?

MR. CAMPO: Oh, yes, but Canadian Fina is a 100 per cent subsidiary of Belgian Petrofina. They have no outside shareholders.

MR. FRAWLEY: And you have only 92?

MR. CAMPO: No, that is incorrect.

MR. FRAWLEY: I don't want to say anything that is incorrect. It may be the fault of my note. I thought this morning that all of the common shares are owned by Belgian Petrofina?

MR. CAMPO: That is right, that is 20 million shares $1 par value; there are some 6 million shares, I believe close to 6 million at $10 par value per share which are not owned by Petrofina, or if they are owned by Petrofina there is a minor amount owned by Petrofina.

MR. FRAWLEY: Now, Mr. Campo, you were carrying the torch here on page 6 for the International--

MR. CAMPO: I never knew I would get to that stage of carrying the torch.

MR. FRAWLEY: Well, I will read it to you and you can make your own conclusion.

"This accusation", that is the accusation of company preference --

"This accusation is not supported by evidence on hand which shows that the major oil companies in Canada, regardless of the affiliation of most of them with international companies, have done their utmost to expand the markets for Western Canadian crude. The most evident proof is the capture of the Ontario market. If there had been any desire to discriminate against our Western crudes, the Ontario market could and would now be supplied by foreign crudes."

Do you think that you could refine in Ontario with Kuwait crude?

MR. CAMPO: We can refine anywhere with any crude as long as we have the plant facilities.

MR. FRAWLEY: You have to have a considerable capital investment to take care of Kuwait crude?

MR. CAMPO: Yes.

MR. FRAWLEY: Do you think you could do that as handily in Ontario as in Quebec?

MR. CAMPO: I don't see why not. It all depends again on the cost of crude, realization, etc., etc. Economics.

MR. FRAWLEY: But you would have to make that capital investment before you could refine a barrel of Kuwait crude?

MR. CAMPO: That is correct, but if you say there was such terrific desire to use foreign crudes, we would bend backwards; might even lose a little bit of money to use this foreign crude.

MR. FRAWLEY: Oh, I don't think you would bend backwards to shut back Canadian crude, would you?

MR. CAMPO: That is what has been said that the company has done.

MR. FRAWLEY: I thought you just said a moment ago - -

MR. CAMPO: Oh, that is right. It isn't done generally. There is no evidence to that effect.

MR. FRAWLEY: Except we had the instance of Sun Oil Company that couldn't get rid of 5,000 barells of Venezuela crude.

MR. CAMPO: That is the flea on an elephant.

MR. FRAWLEY: 5,000 barrels, I think, is not to be passed up when you are shut back?

MR. CAMPO: I agree. It is not a joking matter.

MR. FRAWLEY: That is what I mean, you don't think the present situation of locked-in oil in Alberta is in any sense a joking matter?

MR. CAMPO: Absolutely not.

MR. FRAWLEY: Now, you say on page 11 that you belong to the section of the industry that

feels the effects of the hard times more than other sections, and I wish you would explain that?

MR. CAMPO: Mr. Takacsy here mentioned some figures as to our actual production, current production versus producibility. You will see that our position is rather touchy that way. No. 2, I am referring to the condition of Petrofina, as I say Petrofina has not had a chance to build any reserves. All we have been doing has been to try and establish ourselves in this area, and we have not had a chance to build up any reserves whatsoever, so for that reason we are hard-hit, harder than the average company is hit.

MR. FRAWLEY: But you can continue to weather the storm for a good many years as long as you have that Belgian Company?

MR. CAMPO: I don't ask you to feel sorry for me. I just said we happen to be in the position where we are being hurt too.

MR. FRAWLEY: You see, Mr. Campo, you struck me as you gave your evidence this morning as being a pretty rugged individualist.

MR. CAMPO: That is right.

MR. FRAWLEY: But the fact is that you are in the very fortunate position of having this world-wide Belgian Company at your back.

MR. CAMPO: I can assure you that if the Belgian Company eventually find out that I cannot

produce, I think they won't keep me there very long and I don't want to stay there very long.

MR. FRAWLEY: On page 10 you talk about the $44 million per year in the cost of petroleum products to the ultimate consumer in those areas.

MR. CAMPO: I say "up to".

MR. FRAWLEY: That is the same $44 million that you were talking about to the Hall Rotary the other day?

MR. CAMPO: Yes, that isrright. Might I say I am glad to hear that my words circulate so freely and so fast.

MR. FRAWLEY: Some of us have our ears pretty close to the ground.

MR. FRAWLEY: Now, of course, you are talking naturally and obviously of your own personal circumstances?

MR. CAMPO: No, I am not talking in the personal situation, I repeat that is the figure on the basis of posted price two-way plus transportation costs available to anybody.

MR. FRAWLEY: And you say that works at a differential against you, against Alberta crude of 58 cents a barrel at Montreal?

MR. CAMPO: Correct.

MR. FRAWLEY: And that is where the $44,000,000 comes from?

MR. CAMPO: Yes.

MR. FRAWLEY: Like the figures on page 9, an exercise in arithmetic?

MR. CAMPO: Very simple arithmetic.

MR. FRAWLEY: Now, whether or not money is lost by a Montreal refiner depends upon his refinery spread or refinery profit, you agree with that?

MR. CAMPO: Naturally.

MR. FRAWLEY: Whatever he sells the product at has a bearing on whatever money he makes out of his operation, of course, and depending on the size of the original spread, upon that depends his ability to pay more for his crude if he has to, that also follows, I suppose?

MR. CAMPO: To pay more for his crude?

MR. FRAWLEY: Yes.

MR. CAMPO: If he has to.

MR. FRAWLEY: I will put it to you as I have put it to most of the refiners that have come here: The laid down price of crude oil, Alberta crude oil in Toronto is $3.29, the laid down price of Venezuelan crude in Montreal which is the big portion of it is $3.07, but the posted tank wagon prices for distilates and fuel oil, excluding bunker C are about the same.

MR. CAMPO: But you must remember oil has a big bearing on it, other products, propane and this that and the other, you have to take the whole income, the revenue.

MR. FRAWLEY: But I suggest to you that on the surface at least there is a better refinery spread in Montreal than in Toronto.

MR. CAMPO: I cannot say because I have not a refinery in Toronto.

MR. FRAWLEY: Is that the reason you built in Montreal?

MR. CAMPO: No, the reason was that in examining the markets, at the time, in 1953 we felt that in the Montreal area there were not as many oil companies in business, we felt

that the climate in general was more favourable to us and that is the reason we chose Montreal as the original point.

MR. FRAWLEY: I would not boast about the Montreal climate.

MR. CAMPO: Not the actual climate, the business climate.

MR. FRAWLEY: I want to ask you something else about this determination of the Canadian price because you did say this morning that quotas on imports would lead to Government regulation of wellhead prices, and I think that is such a horrible consequence, I would like you to expand on that.

MR. CAMPO: Did I say that?

MR. FRAWLEY: Yes, you said that it was - I do not know how definite you were, it was not in your brief, but in answer to Mr. Pattillo that it might lead to Government regulation of the wellhead price, that is the imposition of quotas on the Montreal market.

MR. CAMPO: It might lead to anything, I do not know if I said that particular thing, but I said once you start directing companies to that extent where you get into the matters of quotas and duties and procedure and this and that to fit the pattern, eventually you get into the position - one thing leads to another.

MR. FRAWLEY: Well, this particular thing, perhaps I was wrong in thinking you had any strong conviction that it would necessarily lead to regulation of the wellhead price.

MR. CAMPO: It might, but it might not.

MR. FRAWLEY: You have a business man's logic as to what Government control means.

MR. CAMPO: That is right.

MR. PATTILLO: I would be very interested if Mr. Frawley would explain to us what he means by "business man's logic".

MR. FRAWLEY: What we have been listening to today.

THE CHAIRMAN: It is difficult for Counsel to understand that.

MR. FRAWLEY: What I said a moment ago, let the devil take the high most.

MR. CAMPO: May I say something? I stated something that was not quite correct. Our commitment to Petrofina applies to anything in excess of our own production. You remember you asked originally if we had to refer to Belgium Petrofina in case we had production, we do not have to if it is our own production, we can use it without any reference whatsoever.

MR. FRAWLEY: You call Calvan and Western Leaseholds your own production?

MR. CAMPO: Yes.

MR. FRAWLEY: What was the date of the agreement which tied you to - -

MR. CAMPO: 1954 - 1953, somewhere around there and renewable every five years.

MR. FRAWLEY: You have acquired Western Leaseholds and Calvan since then?

MR. CAMPO: Yes.

MR. FRAWLEY: Have you had amendments to the original agreement?

MR. CAMPO: No, the contract was worded in that fashion.

MR. FRAWLEY: Now, there are two things I want to ask you: Would you look at page 5 in which you say, you make a forecast and you say:

> "We believe that total domestic demand for Western Canadian crude will reach a level of about 500,000 b/d by 1960 and 575,000 b/d by 1962."

Have you or any of your staff handy the make-up of that?

MR. CAMPO: Naturally we have some calculations but I would suggest, unless you have any specific questions to ask us, that we file that.

MR. FRAWLEY: Would you file that as an Exhibit?

MR. CAMPO: Certainly.

THE CHAIRMAN: Have you got it avail-

able at the moment to file so it could be marked as an Exhibit?

MR. TAKACSY: Unfortunately I have only one copy in my hands, we will file it tomorrow.

THE CHAIRMAN: I would think that that copy which you arespeaking about now should be marked as an Exhibit.

--- EXHIBIT NO. M-16-2: Canadian Petrofina Ltd. Forecast of Canadian Demand and Supply of Petroleum Products.

MR. FRAWLEY: Turning to the next page there is almost an identical question that I have to put to you. You say:

"It is obviously difficult to forecast export demand. Perhaps the best that can be done is to assume that, with current restrictions continuing, a minimum of 120,000 b/d of Western Canadian crude will move into the United States over the next few years, and that, without restrictions, our export volume might reach 200,000 b/d in 1960 and 250,000 b/d in 1962"

Now, those are very interesting figures and I wonder if you have the make-up of those?

MR. TAKACSY: I have the make-up of those figures, I have not got all the basic

information here right now, but we will be pleased to file it with the Commission.

MR. FRAWLEY: Perhaps that could have the next Exhibit number and you will file a copy of that tomorrow?

MR. TAKACSY: Yes.

--- EXHIBIT NO. M-16-3: Canadian Petrofina Ltd. Forecast of Exports of Canadian crude.

MR. FRAWLEY: Now, at the top of page 6 you say, again I am back to this same question that the Ontario market - I take you back to the date of the Interprovincial pipe line in 1953, as of that date, could you have put Kuwait crude into an Ontario refinery but knowing you had to make the kind of capital expenditure that is indicated by the figures in the figures on page 7?

MR. CAMPO: I do not know, possibly not - I don't know. You are asking a question like this, I cannot remember the figures and I did not make a particular study of it because we had decided on the Montreal market anyway.

MR. FRAWLEY: That is right. You see, you are a Montreal refiner and I would not be questioning you at all if you had not volunteered this information about Ontario.

MR. CAMPO: On the present basis

there is no question about it.

MR. FRAWLEY: Your refinery would require a 50 per cent additional cost because of the nature of the Kuwait crude.

MR. CAMPO: It might.

MR. FRAWLEY: Well, that is what you say - we will have to leave it there, I suppose. If you had to make that additional capital investment how could you then compete with Redwater crude coming down into the Ontario refineries that did not have to make that kind of capital investment?

MR. CAMPO: It would be a question of economics if you are putting the thing entirely on the basis of economics and also commercial preference it may not pay to do it, it may pay to do it depending on circumstances, but when you are injecting the commercial preference, if he had this terrific desire to use foreign crude he could do it in Ontario today under present conditions.

MR. FRAWLEY: By depending on your supply contract with Petrofina S.A. and you were anxious and they were anxious to help get rid of the crude that they had, then you could do anything on commercial preference?

MR. CAMPO: Yes, and that is what has been said about this commercial

preference.

MR. FRAWLEY: Who said that?

MR. CAMPO: I had heard it in various reports and claims that have been made about commercial preference.

MR. FRAWLEY: Well, perhaps you are pointing the finger at me?

MR. CAMPO: No, by no means.

MR. FRAWLEY: Thank you, Mr. Chairman. I suppose if he is not pointing the finger at me it is a good time to stop.

THE CHAIRMAN: As a matter of fact, I couldn't understand the nature of your acceptance to that as not pointing the finger at you.

MR. FRAWLEY: That is what the man said.

THE CHAIRMAN: Mr. Campo, take your table on page 9. Am I incorrect in assuming that your ocean transportation cost there, whether USMC minus 40 to 60, is a very variable factor.

MR. CAMPO: We put those rates down because actually there have been variations in the rates in this range. As a matter of fact, there have been bigger variations.

THE CHAIRMAN: Has it been the policy of Petrofina S.A. to maintain its tanker fleet afloat, in moving?

MR. CAMPO: Oh, yes, naturally we do.

THE CHAIRMAN: And is it bound by any convention or any rule or law to charge USMC variations?

MR. HANNA: The USMC basis, Mr. Chairman, is a handy one to use. Basically, that is the only reason it is there.

THE CHAIRMAN: Let me put it to you in another way. In other words, in order to compete under this agreement between Canadian Petrofina and

Petrofina S.A., all Petrofina S.A. has to do is to move its rates down, charges down, to compete with any crude you might be offered anywhere.

MR. CAMPO: Yes, that is correct, but there is a limit to what you can offer ships.

THE CHAIRMAN: Is there a limit to how low you can operate a tanker fleet, if it is the policy of the company to keep the tankers afloat?

MR. CAMPO: It is, generally speaking --

MR. HANNA: Roughly the cost of operating a 15,000-ton ship of recent design, such as what is known as the T-2, is approximately USMC minus 55 to 60. That is about the break-even point.

MR. CAMPO: But it would be lower for bigger ships.

MR. HANNA: Yes, lower for larger ships.

THE CHAIRMAN: But there isn't anything from stopping Petrofina S.A. from quoting a charge that would be no more than the cost of fuel and feeding the crew?

MR. CAMPO: That is right, but it wouldn't work out from a revenue point of view.

THE CHAIRMAN: It might, as the cost of keeping the tankers afloat.

MR. HANNA: Yes.

THE CHAIRMAN: Could you tell me, Mr. Campo,

what would Canadian Petrofina do if you were unable to get Kuwait crude?

MR. CAMPO: We would have to get it under different conditions; we wouldn't have much difficulty. We would have to go to Venezuela, we would have to go to other sources. In Montreal we are in a position to have access to anything.

THE CHAIRMAN: What additional cost would be involved to Canadian Petrofina in changing your refinery?

MR. CAMPO: Well, it would mean that we -- depending again on the type of crude that we could locate. Say there was a crude that hadn't the precise sulphur content and didn't require the precise treating that Canadian crude requires, then there would be a certain investment in the refinery that would be wasted, there would be some writing off, regardless of the type of crude that is run. It is difficult to say, and it is dependent on the type of crude. There is a tremendous difference, as you know, between crude and crude.

THE CHAIRMAN: That is true, but I don't know that that helps us very much. The prior statement this morning was that it would take you 20 years to write off --

MR. CAMPO: No, ten.

THE CHAIRMAN: I am sorry, ten years to write off those facilities. Surely you must

have some dollar figure in mind, regardless of the various types of crude. Your answer to me was not sufficiently specific.

MR. CAMPO: Mr. Patton mentioned the fact, and in the brief we have mentioned that it costs 'X' dollars per barrel instead of minus 'X' dollars per barrel. That is the difference we are talking about between the two types of refineries, and that is the amount that would have to be written off.

THE CHAIRMAN: 16 1/2 million dollars, except what is already written off.

MR. HANNA: Yes, except what has been already written off over the last two years. It is 24 against 35 million.

MR. CAMPO: 11 million.

MR. HANNA: It is 35 against 24 million.

THE CHAIRMAN: What is your refinery capacity -- 30,000?

MR. CAMPO: These figures were on 20,000.

THE CHAIRMAN: I make my calculations on thirty.

MR. CAMPO: No, twenty.

THE CHAIRMAN: Mr. Campo, you make a statement on page 10 of this brief to which I would like to draw your attention and I would like you to comment on it.

"We wish also to reiterate that severe

repercussions might occur in relation to our basic efforts to expand the US markets for our crude".

Now, what do you mean by "reiterate"? Have you said those things before?

MR. CAMPO: I refer to the possible reaction that might occur to the shutting off, for instance, of Venezuelan crude in this market and what effect that would have on the capacity of the United States to give consideration to Canadian crude when it is under pressure from Venezuela and political considerations and considerations of crude trying to find a market. We would have displaced crude here, trying to find its place somewhere else.

THE CHAIRMAN: Who would initiate such retaliatory measures?

MR. CAMPO: Venezuela would certainly be interested. It isn't a question of retaliation, it is a question of loss of a market, and they would try to find a market for that oil somewhere. Up to date maybe the United States has given certain consideration to Canadian crude and the Canadian position; I don't know. Disturbance of certain delicate balance, international balance, might do some irreparable harm. I can't be too specific there.

THE CHAIRMAN: You have no reason to

believe the accuracy of the forecast you make in this paragraph.

MR. CAMPO: I believe there is some danger there.

THE CHAIRMAN: You wouldn't believe that the economic market for Western Canadian crude is the Pacific Northwest and the Mid-Continent, we have been told, that it wouldn't continue to go there.

MR. CAMPO: Yes.

THE CHAIRMAN: How could Venezuelan crude be displaced if the Pacific Northwest is the economic market today for Western Canadian crude?

MR. CAMPO: I am referring to the fact that Canada, to a certain extent, would be asking the United States to give it certain consideration. I am thinking of the position of the United States versus Canada, versus Venezuela and versus other countries of that kind. Now, the effect of it might be their being able to do certain things for Canada in the face of Canadian action that shuts off certain crude.

THE CHAIRMAN: I thought you believed in laissez faire.

MR. CAMPO: It is a thing that I believe, I can't be positive about.

THE CHAIRMAN: I just don't see how it may happen, if the economic market for Canadian

crude is the Pacific Northwest.

MR. CAMPO: In the case of the United States, of course, we are talking about quotas.

THE CHAIRMAN: We are below our quota.

MR. CAMPO: Yes, regardless of economics.

THE CHAIRMAN: In other words, you can't help me anymore than that.

MR. CAMPO: No, but I do feel that it is a thing to move at this time.

MR. COMMISSIONER HARDY: Mr. Chairman, just to follow on that same line, I think perhaps Mr. Frawley might want to take the position that the sort of thing you are suggesting might -- the problem in Venezuela at the present time is a problem in Alberta, and when you say there are certain circumstances in which it would be in the public interest to take certain action, I can't see but what this situation of the flea on the elephant is a situation that, if you were ever going to take government action, would be a situation in which you would be justified in doing it, because you have crude coming from an area where there is a very distinct unfavourable trade balance between Canada and Venezuela; it is brought through the United States in bond, where the profit on its transportation is going to a country where we have a further unfavourable balance of trade, and it is delivered into Sarnia with the only profit,

the refining and distribution profits, and is displacing Canadian crude.

MR. CAMPO: It is very true what you say. 5,000 barrels is a minor thing. The important thing is -- we are talking actually from the point of view of helping the Canadian picture, and we must talk in bigger figures than that.

MR. COMMISSIONER HARDY: If the policy you are advocating were to be applied to the Canadian situation in general, the only market that would be left would be from the head of the lakes to the mountains.

MR. CAMPO: Actually, without any government action, the most of the crude comes from Western Canada, and the use of Western crude is being expanded. So there is no such a thing right now.

MR. COMMISSIONER HARDY: Does it not come back, though, to its being marketed in that way at the present time because of these dirty words, "commercial preference"? It is a form of economics.

MR. CAMPO: It has an output of 200,000 barrels a day. There is somebody has brought in 5,000 barrels a day. It is not anything that is extraordinary, something that is vital. I would certainly like to see the oil come from Western Canada, there is no doubt about that, but when we talk about 5,000 barrels a day, it is a flea bite, that is all.

The actual fact is that most of Ontario is supplied by Western Canadian crude, and the play of free economic forces. There is the odd little bit that comes from here and there, but it doesn't matter.

MR. COMMISSIONER HARDY: But what worries me is how free are those economic forces? If we take it on the free basis, on the basic argument you are dealing with here, I can't see but what the whole of Ontario should be supplied at the present time by Petrofina, maybe.

MR. CAMPO: Oh, it isn't.

MR. COMMISSIONER HARDY: It isn't because of this commercial interest, which is a form of economics.

MR. CAMPO: Yes.

MR. COMMISSIONER HARDY: But is not Mr. Frawley justified in saying that all that he wants is that form of economics superimposed on the Alberta situation; he wants more of the same?

MR. CAMPO: I really do not understand it. Let us go back to these famous economics. The actual fact is this. Wherever Western Canadian crude can reach a market, and whenever it can reach a market, on a fairly competitive basis, it will reach that market, and nothing has been done to stop it reaching that market. As a matter of fact, everything has been done to facilitate it reaching that market.

Now, the whole discussion is not so much the Ontario market as this Montreal market. The only reason why Western Canadian crude has not reached Montreal is because there is a very substantial difference in cost at Montreal between Western Canadian crude and, say, Kuwait crude or Venezuelan or whatever it might be. That is the point. Now, I do not get your inference in this particular question.

MR. COMMISSIONER HARDY: My inference, Mr. Campo, is this. While there has been no great discussion here of what would happen to the Ontario market, it nevertheless, I think, is fairly obvious that, except for the interests of the integrated companies, the Ontario market would not be retained, and we are simply accepting that as a wonderful benefit for those companies, which it is, undoubtedly, at the moment.

MR. CAMPO: That is right.

MR. COMMISSIONER HARDY: But then you say,

and I have been confused for weeks as to where you draw the line or how you can apply the same arguments to all types of economic situations.

MR. CAMPO: If we are worrying about possibilities of what might happen, what might happen is that Venezuelan may go down 50 cents a barrel.

MR. COMMISSIONER HARDY: It probably will.

MR. CAMPO: Anything can happen. That is an economic condition that would have to be faced at the time. That is all. Now you say there is a danger that the Ontario market could be supplied by foreign crudes. As I said, that is correct, if there were a commercial preference on the part of any body, but as a matter of fact it is not being supplied. By far the greatest part, it is being supplied by Western Canadian crude. So, as far as the danger is concerned, as a matter of fact most of the refining companies have commitments to ship through the Interprovincial pipe line and so on, to take certain amounts of crude and so on. As far as Ontario is concerned, we can consider under present conditions as far as we can see that the market is safe for Western Canadian crude.

MR. COMMISSIONER HARDY: But I still come back to the situation that, as Mr. Frawley

has suggested, perhaps there may be more in those commitments.

MR. CAMPO: They can be made only if they are economically sound. Certainly Canadian Petrofina cannot make a commitment to take Western crude if it is going to cost Canadian Petrofina 58 cents a barrel more. It could not do that under any circumstances.

MR. COMMISSIONER HARDY: I will have to stop carrying the ball for Mr. Frawley.

MR. CAMPO: I do not think I would help Mr. Frawley very much.

MR. COMMISSIONER HARDY: There is just one other question, Mr. Campo. I take it from what you have said here in the discussion that you would still apply these basic principles of economics that you have outlined in your brief to a situation that is created, at least partially, by another Government's action?

MR. CAMPO: If there is any other Government's action, that is the time when the industry requires some help from the Government. There is no question about it.

MR. COMMISSIONER HARDY: Is that not the way we get rid of the fleas, or where we should be doing something about the fleas? If it were not for the United States quota on Venezuelan oil, Venezuelan oil would never be

moving up the pipe line to Sarnia?

MR. CAMPO: But that is a minor thing. We are making the tail wag the dog. That is not the big movement of oil. It is not in Toronto. It is in Montreal. In Montreal the oil comes directly from Venezuela, arriving from Portland and into Montreal.

MR. COMMISSIONER HARDY: Would you agree that when the flea grows up we will do something about it?

MR. CAMPO: I won't agree to anything. I say right now we are not faced with that condition.

MR. COMMISSIONER HARDY: Thank you very much.

MR. COMMISSIONER LEVESQUE: Mr. Campo, you told us that your shareholders were entitled to 6 per cent before the common shareholders got anything. In what proportion would you divide it after the preferred got 6 per cent?

MR. CAMPO: It is on a par value basis. In other words, they are on an equal footing percentagewise.

MR. COMMISSIONER LEVESQUE: That means that the six million shares, which represent $60 million, are entitled to get $1 million dividend when the 20 million shares common are entitled to $1 million also? The six million preferred would

get $1 million dividend and the 20 million common would get $1 million?

MR. CAMPO: No. Let us put it this way. The par value is 1 to 10. Let us say that there is a 10-cent dividend paid to the preferred shareholders. The common shares would get one cent. Is that right, Mr. Hughes? It is on a par value basis.

MR. HUGHES: The preferred shares are recognized as basic. Once the preferred have received their 6 per cent on the par, then the common receive their 6 per cent on the par, and any further distribution goes out by par by par to both classes.

MR. CAMPO: If the total dividend is 10 cents to the preferred, the common gets one cent because of the difference in par value -- one to ten. It is prorata.

MR. COMMISSIONER LEVESQUE: Secondly, would you know if any other companies in Canada during the last five or ten years have issued voting shares in bearer form?

MR. HUGHES: I do not know of any other.

MR. COMMISSIONER LEVESQUE: How did they vote at your meetings?

MR. HUGHES: I am not too sure as to the bearing of the question, but voting certificates are issued. In the first place, we cannot

reach them by an ordinary notice of a meeting, and therefore we publish a notice in the newspapers advising the shareholders that they can pick up voting certificates from a transfer agent. They can either appear in person or they can deposit their warrants in safe custody. From the transfer agents they would get a voting certificate and with that they would register their votes. There are actually at least ten companies with this type of warrant on the market.

MR. COMMISSIONER LEVESQUE: In Canada?

MR. HUGHES: In Canada. We could perhaps discuss it later if you want to.

MR. COMMISSIONER LEVESQUE: I know Imperial Oil had difficulty twenty years ago.

MR. HUGHES: That is so.

MR. COMMISSIONER LEVESQUE: At every meeting they had to deposit their shares to vote.

MR. CAMPO: We agree with you.

MR. COMMISSIONER BRITNELL: Mr. Campo, I am going to stay away from economics and laissez faire and socialism, fascinating as all those subjects are, but there are one or two points of fact that have been touched upon but are still not quite clear to me.

Take the statement at the top of page 6 in your brief:

"It is obviously difficult to forecast

export demand. Perhaps the best that can be done is to assume that, with current restrictions continuing, a minimum of 120,000 B/D of Western Canadian crude will move into the United States over the next few years, and that, without restrictions, our export volume might reach 200,000 B/D in 1960 and 250,000 B/D in 1962."

I am bothered a little by that word "assume", as to whether that represents a sort of casual hypothesis on your part or whether it is a considered estimate that you are making.

MR. TAKACSY: There is considerable uncertainty at the moment as far as export markets for Canadian crude are concerned. We have suggested in this brief high level talks. Obviously you cannot anticipate the outcome of such an approach, and this uncertainty is translated in our estimates.

MR. COMMISSIONER BRITNELL: But they are your best estimates of what would happen under those conditions?

MR. TAKACSY: They are our best estimates under the present conditions.

MR. COMMISSIONER BRITNELL: Have you seen, by any chance, the estimates of the Alberta Conservation Board that were filed with the Commission last week in Toronto?

MR. TAKACSY: For this year?

MR. COMMISSIONER BRITNELL: For a series of years, including this year's.

MR. TAKACSY: I have not seen them in detail.

MR. COMMISSIONER BRITNELL: I merely ask that because they are rather less optimistic perhaps than your figures and I wondered, when you come to give us your breakdown, whether you would mind breaking down the totals as between or as among, say, first, the Minneapolis or Middle Western market in the United States and, secondly, the Pacific Northwest market or Puget Sound market -- the Pacific Northwest market would probably be more complete -- and then any other markets you might see there?

MR. TAKACSY: We will supply this breakdown to the Commission.

MR. COMMISSIONER BRITNELL: The next point that bothers me a bit is the paragraph in the middle of page 7, which the Chairman very recently mentioned and which Mr. Frawley, I think, mentioned before. Beginning in the middle of the paragraph, you say:

"Admittedly Redwater crude is a more valuable crude than Kuwait, but Canadian Petrofina made a large investment in its refinery in order to be in a position to handle

Kuwait crude and benefit from its low price. The investment in its refinery amounts to $1,750 per barrel of throughput as against $1,200 per barrel for an average refinery."

Can I infer from that that, had you built a refinery to take Redwater crude, it could have been built for around $1,200 rather than $1,750?

MR. PATTON: If we did build a refinery to handle Redwater type of crude, a good crude with low sulphur content, we could build it for much less -- around $1,200.

MR. COMMISSIONER BRITNELL: Would any additional expense be involved in a switch from Kuwait to Redwater crude with your present refinery?

MR. PATTON: No; just the opposite. We would have more equipment than we needed.

MR. COMMISSIONER BRITNELL: That is what I thought, but I was not quite sure from the answer. The remaining point which I would like to raise is concerned with the first paragraph on page 8, which has also been discussed at some length:

"As of today, with tanker time-charters available at no higher than USMC minus 55 per cent and with the U.S. dollar at a discount of $3\frac{3}{4}$ per cent in terms of Canadian currency, the differential in the laid-down cost of the two crude oils at Montreal would

be 58 cents per barrel in favour of Kuwait crude."

I am just a little confused, after the discussion with Mr. Pattillo and with Mr. Frawley, as to whether this is a purely hypothetical example or whether it has some approximation to the present or the immediate past situation.

MR. CAMPO: As far as I am concerned, it is the present condition.

MR. HANNA: It is hypothetical as an example but it is very close to present conditions.

MR. COMMISSIONER BRITNELL: I know that you are going to file figures with the Commission on the factual position, but this is not so far from reality that we cannot take it as an approximation of the present position?

MR. HANNA: That is right.

MR. COMMISSIONER BRITNELL: Thank you.

MR. COMMISSIONER LADNER: Mr. Campo, your submission has many valuable and sound suggestions. I notice in the opening part of your brief you say that the brief expresses the views of Canadian Petrofina Limited concerning:

"1. Marketing of Western Canadian crude oil.

"2. The national energy authority."

Am I right in saying that your approach in

evidence is limited to observations and judgment on those points? You do not presume to speak from the point of view of what may be termed the national interest, from which a government might speak?

MR. CAMPO: That is entirely Canadian Petrofina.

MR. COMMISSIONER LADNER: Speaking of Canadian Petrofina?

MR. CAMPO: Yes.

MR. COMMISSIONER LADNER: And regarding your submission, and your position generally, I would take it that your duty is primarily to the shareholders of your company? I am referring to the submission here before this Commission and to the interest of the shareholders and that these take precedence over all other considerations?

MR. CAMPO: That basically is correct.

MR. COMMISSIONER LADNER: That is a reasonable conclusion?

MR. CAMPO: Within reasonable limits because I still feel that the interest of the company cannot be contrary to the interests of the country. In other words, I think that the two - -

MR. COMMISSIONER LADNER: I am just coming to that aspect of the question. What I am trying to do is to delineate your position here as between your duty and function as the president on the one side, and the public interest on the other. I think the submission

[illegible]

has not got any meaning unless we make that point of view clear.

MR. CAMPO: I think you are quite right. I mean it is quite a good point you have raised, but I thought I had made it clear that I was speaking naturally for Canadian Petrofina and representing the shareholders of Canadian Petrofina, besides having expressed at various times my opinion that that is not contrary to public interest or to national interest. As a matter of fact, it is in the national interest.

MR. COMMISSIONER LADNER: Well now, wouldn't you say that I think, speaking of your duty now, I speak of your function as president of the Canadian Petrofina Company Limited, it is the duty of legitimate business men within the law to benefit their shareholders?

MR. CAMPO: That is right.

MR. COMMISSIONER LADNER: I mean that goes without saying almost?

MR. CAMPO: Absolutely.

MR. COMMISSIONER LADER: And that the public interest is the concern of governments, and the making of policies by governments and their agencies. Now you do not presume in submitting your opinion here today to submit them from the point of view of the Government of Canada?

MR. CAMPO: No.

MR. COMMISSIONER LADNER: Am I not correct in saying that you come here as a business man at the head of a large institution and say from the point of view of our business - -

MR. CAMPO: That is right.

MR. COMMISSIONER LADNER: - - that is what we think should be done, free enterprise and so on.

MR. CAMPO: And as a citizen.

MR. COMMISSIONER LADNER: And it is for somebody else to decide, perhaps through the agency of the Royal Commission or otherwise what the public policy should be after hearing the viewpoints of your interest and other interests you have submitted?

MR. CAMPO: Absolutely right.

MR. COMMISSIONER LADNER: Do I sum up the situation - -

MR. CAMPO: Perfectly. I have simply expressed an opinion as an individual and as a tax payer.

MR. COMMISSIONER LADNER: And as an officer of the company?

MR. CAMPO: And also at times I have expressed an opinion as a citizen, as a tax payer. That is all.

MR. COMMISSIONER HOWLAND: I just have a few residual questions Mr. Campo. In your experience

in purchasing crude, is the posted price still the controlling price in most transactions today?

MR. CAMPO: As far as we are concerned that has been.

MR. COMMISSIONER LADNER: And as far as your knowledge extends?

MR. CAMPO: As far as I know, yes.

MR. COMMISSIONER LADNER: One or two questions on reactions on reading your brief, and if they sound a little carping please ignore that, it is just reaction to reading what you said. I notice that you referred to the Gordon Commission, particularly to the expert study, this is the John Davis study and you state there that according to this authority, and you seem to rely on this authority, that Western Canada is in a pretty good position to share in supplying continental needs. Now there are one or two points that have been raised in regard to this study in matter of evidence, not opposed to the study but facts given which worry me a little in your assumptions. I recollect, I hope I am correct in this recollection that Doctor Davis in his estimate of the market for Western crude in the early sixties includes the Montreal market. Now this doesn't seem to be the presumption of, as you termed it, the major oil companies. Here is a fairly susbstantial volume which Davis assumes comes to Montreal and

you do not.

MR. TAKACSY: As far as the Davis study is concerned, what he feels might happen during the 1960's we consider this as the intermediate range, and not the long term prospects. When we were talking about the long term prospects, we were thinking of the estimates that the Davis study made for as far as 1980, not for the in between years. I wouldn't say that all parts and every paragraph of this study is accepted by us.

MR. COMMISSIONER LADNER: No, but I am glad to have that reply so that I know where you stand on it. Another assumption that was brought out in the evidence before the Commission is that in order to get into this position, Western industry has got to have a rate of discovery twice as rapid as between the years 1947 and 1957. This is a fairly rapid rate of growth. It is brought out by at least two of the major oil companies to us. Now how can you reconcile that with this type of philosophy which is, I understand it, perfectly legitimate philosophy? How can you reconcile such an assumption with the philosophy which says if the road gets rough, we will have to ride it out? I don't say I think you are wrong, but I am trying to reconcile that with a forecast that you endorse.

[illegible]

MR. TAKACSY: Well we have forecast a certain domestic demand for Canadian crude, and also made certain assumptions for export demand, and we do think that this forecast will assure the rate of exploration in Western Canada without producing surplus capacity that will reach the objective in the long run. Did I make myself clear?

MR. COMMISSIONER LADNER: Mr. Kane once made himself quite clear about the long run. He said in the long run we are all dead. I don't mean that in criticism. Another point of fact I think Mr. Campo, I think that you said that the plum of the oil industry in Canada was the operating end?

MR. CAMPO: The production.

MR. COMMISSIONER LADNER: The production. I am a little concerned - -

MR. CAMPO: Not in Canada; in general. Everywhere. Not in Canada. The Canadian producing industry is a bit on the young side to really be able to cash in. In general, in the World, that is recognized to be the place where the oil companies make their money.

MR. COMMISSIONER LADNER: Well I am just interested, if this is not so in Canada, Canada has exceptional circumstances, right?

MR. CAMPO: As I say, the industry,

the producing industry is relatively young.

MR. COMMISSIONER LADNER: Well we have had a lot of evidence but for the past ten years hundreds of millions of dollars have been spent on this, and they have never got, the majors haven't got their money out by any means, if any return?

MR. CAMPO: That is right.

MR. COMMISSIONER LADNER: On the evidence it suggests that the refineries were in some cases at least guaranteeing the development. Now again not in criticism, but in understanding the basic needs of the oil industry in Canada is this so?

MR. CAMPO: Well it might be so for some of the other companies, but obviously Petrofina is not in that position.

MR. COMMISSIONER LADNER: Now equally then you would tend to make a reservation of your submission as going beyond your purview that the plum was in the operating or producing level in Canada?

MR. CAMPO: I can say this to you: In the oil business, in any circles I mean I have spoken to, certainly the production is considered as the section of the oil business in which an oil company, very large oil company will receive its biggest returns. It might take

years. It might take a long time but eventually that is the plum.

MR. COMMISSIONER LADNER: This is the capital gain rather than the return at present. If it is in Canada because there have been very little during the - -

MR. CAMPO: In Canada, as I said, the industry is young. It is pouring money back in to find crude oil. Under these conditions it hasn't had a chance to cash in on it.

MR. COMMISSIONER LADNER: I am just trying to sort the facts. You would have to say that in Canada so far the plum is not in Western Canada; the plum must be in Montreal?

MR. CAMPO: Take for instance in the case of Canadian Petrofina. Let's talk about marketing and refining. We are in the same position. We have been here five years marketing and refining. We have not made any money worthwhile. We have been pouring money in. We hope that we will get a return on our money. We are too young to expect that return yet, and that applies to marketing and refining. In other words, takes a certain time. You can't go and start operating all of a sudden and expect to make big profits right away.

MR. COMMISSIONER LADNER: I would understand that.

MR. CAMPO: That is right.

MR. COMMISSIONER LADNER: Now just one last question on this matter: On importation of bunker C fuel you have been competing, I presume, with some of these imports of the States in prices for these imports? I mean, I am asking from your general experience of the oil industry.

MR. HANNA: There is a cargo price for them in the U.S. Gulf of Mexico, Caribbean ports, and it is that price plus current ocean transport costs with which we have to compete for selling our product.

MR. COMMISSIONER LADNER: All right, I am a firm in industry on the shores of the St. Lawrence, Pulp and Paper plant. The oil industry apparently from outside Canada comes to me, through its agent, and says I have got 10,000 ton ship coming in. If you have got storage you can buy this at 5 cents, 6 cents for a 10,000 cargo lot. Is this what happens in fact?

MR. HANNA: Generally sales are made before the ships start moving.

MR. COMMISSIONER LADNER: I would think so. A chap comes to me, an agent of that refinery in say Venezuela, I don't mind where he is, and he comes to me and says now if you would like to take 10,000 load or barrels I suppose it is, what-

ever it is, I will sell it to you at 6 cents, which is possibly 2 cents lower than the current operating price. Now is that the type of thing he says to me?

MR. HANNA: We are faced with that competition at times when there is an over supply of bunker fuel oil in the Caribbean refineries, and in the United States Gulf refineries, and we get those prices thrown at us, but we are endeavouring to make our sales.

MR. COMMISSIONER LADNER: I have heard of other people who are also faced with that kind of competition.

MR. CAMPO: Of course there is the basic competition all the time with coal, against coal. That is basic.

MR. COMMISSIONER LADNER: And the bunker C again is the bottom of your refining is it?

MR. CAMPO: That is right.

MR. COMMISSIONER LADNER: So this is the one in which you can - - you get what price you can, but you have got to get rid of it?

MR. CAMPO: We must get rid of it.

MR. COMMISSIONER LADNER: So this is even more susceptible to the market, the going price? I mean you unload it? You have got to

move it?

MR. CAMPO: That is right. Big cargo is 10,000 barrels and of course generally a company like that cannot bring in 10,000 barrels. 10,000 tons.

MR. COMMISSIONER LADNER: I believe most of these companies are in fact equipped to take this?

MR. CAMPO: That is right. They have to be equipped.

MR. COMMISSIONER LADNER: I believe most of these companies are in fact equipped to take this?

MR. CAMPO: That is right. They have to be equipped.

MR. COMMISSIONER LADNER: But this bunker "C" has not necessarily much relation to price or cost? It is something one has to dispose of?

MR. HANNA: We must dispose of it.

MR. COMMISSIONER LADNER: Even below cost?

MR. HANNA: Yes.

MR. CAMPO: It is very hard to say what the cost of it is.

MR. COMMISSIONER LADNER: That is right. I understand that it is what the market will bear?

MR. HANNA: That is right.

MR. COMMISSIONER LADNER: Tell me this, can you from your experience, or would it be unfair to ask you this confidentially or otherwise: For the past two or three years how far has this price of imported bunker C tended to - where the sales have been made tended to be beneath your lowest possible price that you could sell? Now if it is an unfair question, skip it.

MR. CAMPO: No, it is not an unfair question but it is a very hard question to answer because actually -- for instance, you said, I believe, during the last two or three years, well, during the Suez crisis we obtained very high prices for heavy fuel oil, there were people who were running around looking for heavy fuel oil and naturally we cashed in on it.

MR. COMMISSIONER HOWLAND: Could you give me the last two or three months?

MR. CAMPO: The markets have been weak during the last two or three months. We could give you information as to what prices we have had to sell our bunker oil at. Actually I do not think in our case we have had to compete against imports at any time, in other words, we have disregarded that business. We have been able to place that fuel oil elsewhere.

THE CHAIRMAN: Thank you verymuch, Mr. Campo, for the brief which you and your colleagues have prepared and have brought here to the Commission. It will be most helpful. We appreciate very much the work and time put into it and your frankness in answering the questions.

MR. CAMPO: Thank you very much, and thank you for your consideration.

THE CHAIRMAN: We will adjourn now for ten minutes.

---A short recess.

CANADIAN COAL DOCK OPERATORS ASSOCIATION

(Revision of Statistics)

(Note by Secretary):

The following is a revision of some figures promised on Tuesday morning, July 15, by Mr. K. C. Culham in connection with the submission of The Canadian Commercial Coal Dock Operators Association. Mr. Culham mentioned these changes in an interjection at the end of the second paragraph of Section II of his submission. The revised figures, which are from the Dominion Coal Board, comprise Part I and Part II of Table I in the Dock Operators' submission. For convenience Part III of the same table is also reproduced here without change, to aid in making the desired comparisons.

Also placed on the record is a revision of the first three paragraphs of the text in Part II of the submission, so as to incorporate the changes in the figures.

The original version of the table and text will be found at pages 7589 to 7592 in the Transcript for the morning of July 15, 1958, Vol. 55.

TABLE I, PARTS I and II

INDUSTRIAL FUEL CONSUMPTION IN ONTARIO AND QUEBEC

PART I — COAL AND OIL

Actual Industrial Consumption: MMM B.t.u.

YEAR	COAL	OIL	TOTAL
1954 (a)	302,044	100,959	403,003
1956	360,989	142,526	503,515

(a) C. L. O'Brien et al: Energy in Eastern Canada. Offprint from Trans., C.I.M.M., 1955, vol LVIII, p. 6, 10. 1956 figures courtesy of the Authors

PART II — DETAILS OF COAL AND OIL: BY PROVINCES AND IN TONS AND BARRELS

		COAL		OIL	
		MMM B.t.u.	Tons (net)	MMM B.t.u.	Bbls. (35 gals.)
1954	Ontario	217,700	8,336,172	51,045	8,800,000
	Quebec	84,344	3,128,016	49,914	8,605,933
	TOTAL	302,044	11,464,188	100,959	17,406,779
1956	Ontario	266,695	10,247,207	74,681	12,876,108
	Quebec	94,294	3,535,040	67,845	11,697,399
	TOTAL	360,989	13,782,247	142,526	24,573,507

Source: Same as PART I.

TABLE I, PART III

FORECASTS FOR NATURAL GAS(b)

Anticipated Industrial Sales by
Trans-Canada Pipe Lines

MMM b.t.u. = MMcf

YEAR OF FORECAST	Interruptible Gas	Firm Gas	Total Industrial
1960-61	52,719	52,494	105,213
1962-63	72,343	64,403	136,746
1967-68	106,436	92,699	199,135
1972-73	157,044	132,411	289,455

(b) Submission of Trans-Canada Pipe Lines, Exhibit 6; Hearings, p. 1907, 2253,2291-93.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

II. TOTAL CONSUMPTION OF FUEL ENERGY AND THE PREDICTED DIVERSION TO GAS

The recent industrial consumption of fuel energy in Ontario and Quebec, as provided from coal and oil, is shown in Table I. Part I of the table shows that in 1954 the total industrial energy consumption by way of coal and oil in Ontario and Quebec (expressed in units of MMM B.t.u.) was some 403,000 units. Of this total some 302,000 units or 74.4 per cent were provided by coal and some 101,000 units, or 25.6 per cent, by oil. This was the consumption in the somewhat depressed year of 1954. Two years later, in 1956, the corresponding industrial consumption of fuel energy had risen by one-fourth, to 503,515 units. Of this larger total some 361,000 units were provided by coal, or 71.7 per cent, and 142,500 units or 28.3 per cent by oil.

The middle part of the table, marked Part II, gives the experience of Ontario and Quebec separately, showing the preponderance of coal in Ontario and the greater importance of oil in Quebec. The corresponding quantities in the customary units of net tons and barrels are also shown.

In Part III of Table I will be found, for comparison, Trans-Canada's forecast of the distributors' natural gas sales to industrial consumers only, taken from its Exhibit 6. The table

shows a forecast of 136,746 units (MMM B.t.u.) of gas to be sold to industry in 1962-63. This represents a very large amount of energy, no less than 27 per cent of the 503,000 units (approximately) derived by industry from both coal and oil for 1956. When compared with coal alone, these 136,746 units amount to 37.8 per cent of the energy derived by industry from bituminous coal in 1956. They are the equivalent of some 5,065,000 tons of coal.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

MR. PATTILLO: We are now to hear from the Irving Oil Company which has filed a submission and which I am suggesting be marked as Exhibit M-16-4.

Submission of

IRVING OIL COMPANY, LIMITED

APPEARANCES:

Mr. K.C. Irving

Mr. E.C. Hodgins

Mr. Chas. Lemieux

---EXHIBIT NO. M-16-4: Submission of Irving Oil Company, Limited.

MR. PATTILLO: Mr. Irving is here, the President of the Company and I am going to ask him to introduce the members of his group to the Commission and to advise us as to who will read the brief.

THE CHAIRMAN: Mr. Irving?

MR. IRVING: Mr. Chairman, Mr. Lemieux is on my right and Mr. Hodgins is on my left. I will read the brief.

I very much appreciate the opportunity to make a submission to this Royal Commission charged with the duty of inquiring into and making

recommendations in respect to sources of energy in Canada and the problems involved in, and the policies which ought to be applied to the regulation of the transmission of oil and natural gas between provinces or from Canada to another country.

My oil activities were for many years pretty much confined to the three Maritime Provinces, but during the last few years have been extended to include Newfoundland and part of the province of Quebec.

Irving Oil Company, Limited now purchases its requirements of refined petroleum products from refineries outside the Dominion of Canada. An affiliated company, Irving Refining Limited, is building a refinery in Saint John, estimated to cost about $50,000,000. It is expected to go on stream April 1, 1960. This project will provide a lot of employment during construction and will create positions for many on completion. It will be a permanent addition to the industrial activity of this area, where it will also encourage the establishment of related enterprises and further industrial development. Our refinery in New Brunswick should not be compelled to purchase Canadian crude oil at prices higher than those for which imported crude now is available.

I have other interests in New Brunswick including the manufacture of long lumber and bleached paper

pulp. My home has always been in New Brunswick and I take pride in being a part of this community. It, therefore, is a source of distress to me that economic conditions are such as to cause the Gordon Commission to devote in its report so much space to economic troubles of the Atlantic Provinces, which, in its opinion, require special consideration.

Our distress and economic problems have developed not from natural causes but principally from man-made regulations and the lack of the necessary off-set action which should have been taken. For years we have been forced to pay annually millions of dollars for the purpose of developing Canada -- principally Central Canada. The result has been the weakening of our pre-Confederation strong economic position to the status stressed in the Gordon Report. Federal policies should be such as to preserve and fully develop the great natural economic advantages our geographic position provides.

Transportation cost in order to carry on trade, as it is now channelled, is recognized as one of the greatest problems of this area. We have in the four Atlantic Provinces approximately 10 per cent of the population of Canada. To place a further burden on our population by way of regulating or restricing free trade in crude oil for the purpose of providing an additional market for Western Canadian crude oil would be most unwarranted. The

resultant higher cost of crude would, of necessity, be passed along to the consumer in the form of higher product prices, and further increase our already high cost of living.

While, to my knowledge, no proposal has been made to extend further east than Montreal the artificial market for Western Canadian crude oil, I am fearful that such measures may be sought. The economic consequences would be most serious for the people of this region.

The people of New Brunswick have made a tremendous investment in Central Canada for which they receive practically no return. They cannot afford to assume the additional burden bound to result by creating an artificial market for Western Canadian crude oil in the Montreal, or any other, area.

In your deliberations on the measures and suggestions that may be submitted to you to make possible the access of Prairie crude oil to the Eastern market, I urge you to give consideration to the impact and consequences of such measures upon the economy and the people of this region.

THE CHAIRMAN: Thank you, Mr. Irving. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman. Mr. Irving, as you know, this Commission has been sitting almost continuously since last February

and during that time we have heard a good deal about the trials and tribulations of the Province of Alberta. As an ex-Nova Scotian I am prepared to start discussing now Maritime rights with you if you are prepared to stay for the length of time that would be required to do it.

MR. FRAWLEY: Mr. Chairman, I enter a formal objection.

MR. PATTILLO: Could you tell us, Mr. Irving, about the Irving Oil Company? Is it a Canadian company or a New Brunswick company?

MR.IRVING: It is a Dominion company.

MR. PATTILLO: Common shares?

MR. IRVING: Yes, entirely.

MR. PATTILLO: Any of those held by the public?

MR. IRVING: We have about 30 shareholders altogether.

MR. PATTILLO: Any pref?

MR. IRVING: Preferred ?

MR. PATTILLO: Yes?

MR. IRVING: No.

MR. PATTILLO: Or any debentures?

MR. IRVING: Yes, some debentures.

MR. PATTILLO: Any bonds?

MR. IRVING: No, debentures.

MR. PATTILLO: Are the debentures placed in Canada or in the United States?

MR. IRVING: In Canada, they were originally placed in Canada. I think pretty much held in Canada.

MR. PATTILLO: Have they any conversion privileges to shares?

MR. IRVING: No.

MR. PATTILLO: Now, the directors of the Irving Oil, are they all Canadians?

MR. IRVING: We have eight directors, six are Canadians and two are from the United States.

MR. PATTILLO: And this other affiliated company, Irving Refining Limited, we heard in Calgary that Standard of California has an interest in that company?

MR. IRVING: That is right.

MR. PATTILLO: And it is presently contemplated that the common shareholders would be Standard of California and Irving Oil Company; is that correct?

MR. IRVING: Standard of California -- of B.C., I think it is.

MR. PATTILLO: Which is a subsidiary of Standard of California?

MR. IRVING: Yes.

MR. PATTILLO: And Irving Oil?

MR. IRVING: No, me personally.

MR. PATTILLO: Now, is this refinery,

has construction been commenced?

MR. IRVING: Yes.

MR. PATTILLO: How long ago did construction begin?

MR..IRVING: Well,we have been acquiring land for years and I do not suppose you consider that part of construction but work started, I would say, in March of this year, the actual work on the ground.

MR. PATTILLO: Now, I understand from the evidence that we got in Calgary that the source of crude for this new refinery will probably be Middle East crude of Standard of California; is that correct?

MR. IRVING: Yes, that is what we expect it to be.

MR. PATTILLO: At the present time you are not importing crude, you are importing products; is that correct?

MR. IRVING: Yes.

MR. PATTILLO: And would you mind telling us the source of those products, geological source?

MR. IRVING: Yes, from Aruba, Amauy and Curacao.

MR. PATTILLO: And for how many years have you been importing your products?

MR. IRVING: Well, back in 1924 we imported, then for a while we did not, we purchased from

Canadian sources. Then, in 1930 we again -- April, 1930 we started importing for a short time then when the duties were changed and one thing and another on products why we bought also, starting in perhaps early 1931, we bought in Canada again. Then I would think perhaps it was about 1949 we started buying part of our requirements from these sources that I mentioned, from Aruba and Amauy and going on, two years ago we started buying Curacao.

MR. PATTILLO: And therefore the last two years you have not been buying any of your requirements in Canada?

MR. IRVING: That is right.

MR. PATTILLO: Now, at the present time, as I understand it, you are retailing in the three Maritime Provinces, in Newfoundland, and what I would call the Eastern Townships of this province and around the area of the City of Quebec; is that correct?

MR. IRVING: Yes, you might say Eastern Quebec, from Montreal east.

MR. PATTILLO: Now, I assume you have given some study to this question of moving Canadian crude into Montreal?

MR. IRVING: Given it some thought?

MR. PATTILLO: Yes, and have you carried your thinking to what your company's position would be with this new refinery being supplied by Middle East crude if the refineries in Montreal were required to take Canadian crude? What would your competitive position be?

MR. IRVING: Would you mind repeating that question, please?

MR. PATTILLO: If your new refinery was being supplied by Middle East crude, as you contemplate, and the refineries in Montreal were required to take Canadian crude, have you given any thought as to what your competitive position would be as against them as compared to your competitive position today with them?

MR. IRVING: Yes, of course, you always,

when such a thing as this is contemplated, naturally are concerned about it and wonder just what effect it will have on your operations. Before establishing or deciding building a refinery in Saint John, we gave a little thought to what might take place in respect to Western crude and Western Canadian crude, foreign crudes and all that sort of thing, studied it, and we felt there was no possibility of having crude coming as far east as the Maritimes, anyway, and we took all that into account and eventually decided, for various reasons, to locate our refinery in Saint John.

MR. PATTILLO: Yes, but you haven't answered my question.

MR. IRVING: Yes. Well, we have, as far as the immediate position is concerned, given thought to it.

MR. PATTILLO: When you have given thought to it, what do you consider, from your years of experience in the oil business, your competitive position would be if your refinery was permitted to have Middle East crude to the fullest extent and to its capacity and the Montreal refiners were required to use Canadian crude entirely? Would your competitive position vis-a-vis then be improved over what it would be if they continued to use the crude that they are presently

using?

MR. IRVING: If you stopped and started there, with our position, of course, with present-day costs of western crude delivered in Montreal as compared with Middle East crude delivered at Saint John, we would have an advantage, but it depends how you accomplish what you have in mind.

MR. PATTILLO: Perhaps you will explain that. You have thought of that because that might happen. Supposing you were faced with the problem of moving Canadian crude to Montreal, do you think, first of all, it could be done without quotas?

MR. IRVING: Well, I would have to know first what the cost of producing crude in the West is, and if I had sufficient margin, I might be able to do it.

MR. PATTILLO: That would mean that if you were prepared to place your selling price somewhere in relation to your cost of development and finding so that you were getting a pay-back in a certain period of time, you think it might be possible to move Canadian crude to Montreal without any quotas at all?

MR. IRVING: Well, if you told me what it cost to produce a barrel of crude in the West and how much it cost to move it to Montreal, I could tell you whether I thought it would be competitive or not.

MR. PATTILLO: Well, we have had various bits of evidence about that. I will let Mr. Frawley, who is interested, develop that further with you, Mr. Irving, because he probably can get what the Conservation Board developer considers are those figures.

Let me put this to you: would you consider it was fair if the Dominion of Canada Government imposed quotas on importation of crude and products on Montreal, and the central Canadian refineries only permitting a very small percentage of foreign crude and imports to come in, and at the same time said to refiners in the Maritimes, "We are intending to impose quotas on you, but it won't be the same because we can't get Canadian crude to you, but your quotas will be based on our calculations as to the market in the Maritimes and Newfoundland. We will permit you to bring in foreign crude for those markets, but we won't permit you to bring in additional supplies which will enable you to go up and take the market away from the Montreal refiner who, we insist, will take Canadian crude"? Do you consider that fair?

MR. IRVING: I would consider it, as a suggestion or proposition. We, of course, had definite plans in mind when we located our refinery in Saint John. We figured on marketing a certain part of our production in the Atlantic

provinces and a certain part in the province, we will say, of Quebec. If you made some suggestion that didn't upset those plans, didn't increase our costs of oil and made it possible, I suppose I couldn't say it was unfair. We are naturally interested in the Western producer, but inasmuch as we have decided to make this investment in Saint John based on conditions as they existed at the time, and knowing, too, that perhaps from some standpoint it wasn't the best location for our market of redistribution, but for certain reasons that we had ourselves we decided that was the location where we would like to build a refinery, and nothing was done to upset those plans or to increase the cost of oil to us in the East, I don't suppose we could object to anything that you did. We are naturally, as I said before, very much interested in Western Canada; we don't want to be unfair to them, but we must not be placed in a position, or we do not want to be placed in a position where we are going to have to sell our products for more money.

MR. PATTILLO: One of the western producers has suggested that this Montreal-Portland pipe line be reversed and that they send Canadian crude to Portland and then they send it on to Saint John and Halifax. What do you think of that scheme?

MR. IRVING: Well, it could be done, but the figures I have are that our crude would posibl possibly cost us 75 cents a barrel more.

MR. PATTILLO: Than your presently estimated cost?

MR. IRVING: The cost of crude coming from the Middle East. I am not familiar with pipe line charges, but I have some figures which are reasonably correct.

MR. PATTILLO: I was going to ask you, would you be prepared to file those figures with the Chairman as to what you have worked out as the cost if that happens and what you have worked out as to the cost of your Middle East crude laid down in Saint John?

MR. IRVING: I would be very glad to do that. If I could do that tomorrow, would that be satisfactory?

MR. PATTILLO: It would be satisfactory.

Now, as a Canadian who has been in the oil business for more than thirty years -- I think you have been in the oil business for more than thirty years, have you not?

MR. IRVING: That is correct, thirty-four years.

MR. PATTILLO: What do you think of the policy that has been advanced by Sun that Canada, as an oil-producing country, having production which is capable of supplying the whole of the

Canadian demand, should, for the purpose of self-sufficiency and national security, establish a national policy whereby Canadian oil would be given the preference?

MR. IRVING: I have raised two or three points there. Anything that is Canadian I should think should naturally get preference; charity begins at home. There isn't any question about that. However, it isn't always possible to do that economically, and you have carried right in with the oil business other industries which are dependent on low-cost fuel, and their very existence depends on it.

Take the pulp and paper industry, in which I happen to be interested. If, being a good Canadian, I used Canadian oil at a cost of 75 cents a barrel more at this new refinery project of ours, it would cost us $9,960,000 a year, something along that line, and that is a lot of money. We just couldn't afford that, and it wouldn't be possible for the company to absorb it and it wouldn't be possible for some industries to pay that higher cost for their fuel.

MR. PATTILLO: Do you suppose we could get them to buy any Nova Scotia coal instead?

MR. IRVING: Well, we would like to have them buy, but just the same you would put a lot of companies out of business. I changed over a pulp mill from coal to oil because it was necessary from the cost of operation standpoint. I remember that at the time we changed our cost of steam dropped from 72 cents a thousand pounds to 56 cents, when we changed to oil. There are reasons for that. That is not a normal operation, but it is an instance. It actually took place. So you just could not hold pulp mills up today with high cost fuel and have them operate.

MR. PATTILLO: And you think there are other industries that would be similarly affected?

MR. IRVING: I would think so.

MR. PATTILLO: Mr. Irving, what would you think of the efficacy of a policy of the Federal Government if it decided that, as an oil pipeline is a facility required to move crude oil from the present area to the market area, just as our highways and railways are facilities for moving products, that it would be in the national interest for the Government to build or acquire all such facilities and make them available to anybody who wanted to use them? Do you think that if that policy was adopted that the producer in the West -- let us say that

his cost of finding and developing oil was in the vicinity of $1.20 a barrel and let us say that his probable costs of moving oil to Montreal under such circumstances would be in the vicinity of 50 to 55 cents a barrel -- would in your opinion and from your knowledge of the oil business it be probable that the producer in the West would take advantage of the facility offered and move his oil into the Montreal market at a price competitive with Middle East crude laid down here?

MR. IRVING: You say that was at cost or selling price of $1.20?

MR. PATTILLO: I did not say "selling price". I said that is his cost of developing and finding.

MR. IRVING: You said his cost is $1.20 and his transportation is 55 cents?

MR. PATTILLO: I said "50 to 55 cents".

MR. IRVING: That is $1.75.

MR. PATTILLO: Yes.

MR. IRVING: Well, he would have a margin of profit there. You are asking me should he take advantage of it?

MR. PATTILLO: From your experience in having gone out and bought products and crude and that sort of thing on the market and dealt with these people and found out what margin they insist on if they are going to do business in the marketplace, what do you think would be the likelihood of them

moving it? Would they say, "No, we will keep it in the ground"?

MR. IRVING: I would say that it all depends. There are a great many factors you would have to take into account. If they are giving their oil away to do it, maybe they would not take advantage of it. If they were making a reasonable profit, I should think they would.

MR PATTILLO: As a person who has been in the oil business all these years, have you ever been able to determine what they consider a reasonable profit in the oil business?

MR. IRVING: I know what I consider a reasonable profit.

MR. PATTILLO: Well, do you mind telling us?

MR. IRVING: You mean - -

THE CHAIRMAN: Mr. Irving, is the balance sheet of Irving Oil Limited published?

MR. IRVING: Yes, it is. I would say that we made a reasonable profit last year and we made a reasonable profit the year before from our operations.

MR. PATTILLO: Would you be prepared to file with the Commission copies of your balance sheets and profit and loss statement?

MR. IRVING: Yes.

MR. PATTILLO: There was one question I

omitted to ask you. Your company has never been in the producing business in Canada?

MR. IRVING: No.

MR. PATTILLO: Thank you. That is all the questions I have.

THE CHAIRMAN: Mr. Frawley?

MR. FRAWLEY: Thank you, Mr. Chairman. I have no questions.

MR. COMMISSIONER HOWLAND: There is one question, Mr. Irving. You discussed, or at least you mentioned in general terms, your plans to service a number of markets: the Atlantic provinces, I believe, and parts of Quebec. That would include Montreal and eastern parts of Quebec from Montreal, is that correct?

MR. IRVING: Yes.

MR. COMMISSIONER HOWLAND: It includes Montreal?

MR. IRVING: Yes, definitely it includes Montreal.

MR. COMMISSIONER HOWLAND: What I would like to get -- and if it is a secret of your own perhaps you would let us have it off the record, but possibly it is not that kind of matter -- but what I would like to know is the proportion of your estimated market which is formed by Montreal, in the first place, and, secondly, Montreal and Eastern Quebec -- the two different breakdowns.

MR. IRVING: I can tell you now that our sales are about 70 per cent in the Atlantic provinces, 30 per cent in the Province of Quebec, and we figure that our sales should be about 60 per cent in the Atlantic provinces and 40 per cent in the Province of Quebec from 1961 on. That is what we are hoping for.

MR. COMMISSIONER HOWLAND: Assuming -- I am using Mr. Pattillo's "assuming" just for exercise and I do not want it to be anymore than that -- that there was a quota, a 100 per cent quota, which is just a supposition, on your entry into the Quebec market, that 40 per cent of your estimated output, or estimated market. Perhaps I should be a little more careful. I presume that your refinery was tailored to those market estimates. Am I correct in that?

MR. IRVING: Yes. We are building a refinery, and I can give it to you in barrels if you like: 13,300,000 barrels would be our annual throughput, 8 million barrels of that in the Atlantic provinces, and that would leave 5.3 million for the Province of Quebec. You cannot always do what you wish to do, and your market changes from year to year and you lose accounts, and that amount varies from year to year.

MR. COMMISSIONER HOWLAND: What I am trying to get at -- and it is just a supposition --

is the effect of a cut-back of 5 million barrels in your output. Would that be material? Would your cost be materially affected?

MR. IRVING: It would, yes.

MR. COMMISSIONER HOWLAND: If you had that cut-back?

MR. IRVING: It would, yes.

MR. COMMISSIONER HOWLAND: And this would be of some particular moment to you because yours is a new refinery?

MR. IRVING: Yes, that is correct.

MR. COMMISSIONER HOWLAND: Thank you, Mr. Chairman.

THE CHAIRMAN: Mr. Irving, would you tell us, just so that we will be clear in our understanding and knowledge of it, what oil companies operate in the Maritime provinces other than your own?

MR. IRVING: Well, we have pretty much all the majors of Canada.

THE CHAIRMAN: You can take them alphabetically, if you like.

MR. IRVING: We have the British-American, and then we have the Canadian Oil Company, we have the Ontario Oil and the McColl-Frontenac and Petrofina -- Shell does not operate -- and ourselves.

THE CHAIRMAN: So that with yourselves there are six?

MR. IRVING: That is correct.

THE CHAIRMAN: Well, thank you very much for preparing this brief and coming before the Commission and giving us your views. We appreciate it very much.

Gentlemen, the hearings of the Commission are now adjourned until 10.00 o'clock tomorrow morning in this Council Chamber.

---Whereupon these proceedings adjourned at 4.40 p.m., to resume at 10.00 a.m. on Thursday, July 17, 1958.

Mr Borden

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

MONTREAL

P. Q.

VOLUME No.: 57

DATE: JUL 17 1958

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO. LTD.
371 BAY STREET
TORONTO
EM. 4-5773 EM. 4-5865

TRANSCRIPTION BY
MEMBER
ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

ROYAL COMMISSION

on

ENERGY

Proceedings of hearings
held at Montreal, P. Q.,
commencing Monday, July 14,
1958

PRESENT:

MR. H. BORDEN, C.M.G., Q.C.	-	Chairman
MR. J. L. LEVESQUE	-	Member
DR. R. D. HOWLAND	-	Member
DR. R. M. HARDY	-	Member
MR. L. J. LADNER	-	Member
MR. G. E. BRITNELL	-	Member

COMMISSION COUNSEL:

Mr. A. S. Pattillo, Q.C.

Mr. M. H. Patterson

Mr. J. F. Parkinson	-	Secretary
Major N. L. Lafrance	-	Asst. Secretary

[illegible]

E X H I B I T S

M-17-1	Brief of the Canadian Husky Oil Limited.	7968
M-17-2	Submission of Montreal Pipe Line Company Limited	8075

Thursday,
July 17, 1958.

--- On resuming at 10.00 a.m.

Submission of

CANADIAN HUSKY OIL LIMITED

APPEARANCES:

Mr. Glenn E. Nielson - President

- - - - - - - -

THE CHAIRMAN: The Commission will now resume its hearing. Mr. Pattillo?

MR. PATTILLO: Thank you Mr. Chairman. Today Mr. Chairman we are first going to deal with the brief of the Canadian Husky Oil Limited which has been filed with the Commission and which I propose be marked as M-17-1.

--- EXHIBIT NO. M-17-1: Brief of the Canadian Husky Oil Limited.

MR. PATTILLO: Mr. Neilson, the president of the company is here and he will be submitting the brief. Mr. Neilson?

MR. NIELSON: Thank you Mr. Pattillo. Mr. Chairman and members of the Commission, when we were preparing this brief I stated that I

appreciated the privilege of appearing before you today to discuss some of the problems facing the Canadian oil industry. After listening to the questions of Mr. Pattillo yesterday, and feeling rather lonely over here, I think the word should have been "apprehension" but nevertheless, we do appreciate being here.

I appear as President of Canadian Husky Oil Limited and also as President of Husky Oil Company of the United States. Naturally, my interest lies with the smaller independent companies and their problems.

Many of the problems confronting the smaller companies in Canada and the United States are quite comparable. In both countries we are suffering from a lack of adequate markets at the present time. In both countries the shortage of markets is due to, or could be corrected by the control of imports of crudes and refined products. In both countries the shortage could be corrected by effectively limiting imports.

This similarity does not apply in the problems facing the producers of natural gas. Here Canada has a tremendous surplus of shut-in reserves which are being withheld from ready and willing markets in the United States through lack of government action. In the United States, gas

[illegible]

producers are the healthiest part of the industry. In Canada they have a definite problem in financing the drilling of the wells necessary to validate their leases.

When I refer to the financial problems of Canada I refer to the smaller companies who are somewhat limited in their financibility - in their ability to finance operations that do not return income.

Before proceeding further, it is perhaps appropriate that I give you some of the background of the two Husky companies which I represent.

In 1938, I was instrumental in organizing Husky Oil Company in the United States. Our entry into the oil industry was on a very modest basis. We managed to assemble sufficient capital to make a down payment on a 1,000-barrel-per-day skimming plant in Cody, Wyoming, and four small wells which were producing low gravity asphalt type crude oil. At that time, which was 1938, there was little or no market for this oil in Wyoming.

Working almost exclusively with heavy crudes, we built a business that by 1946 was in a position to carry on its own limited activities and at the same time make a modest entry into the young Canadian industry. Our entry was prior

to the discovery of Leduc.

At the time of its organization in 1947, Canadian Husky Oil Limited was a wholly owned subsidiary of Husky Oil Company of United States. As soon as the Canadian company had sufficient operational assets to assure its continuation, shares were sold to Canadian investors. In 1953, Canadian Husky was spun off; and since that time it has been completely separate from the American company. The only ties between the two companies are certain common shareholders, myself as President, and two other directors who serve on the boards of both companies. Eight of Canadian Husky's eleven directors reside in Canada.

I think it is worthy of mention that at the present time both companies are fully integrated, having activities in exploration, production, refining and marketing. The Canadian company has shown more rapid growth and now has approximately 50 per cent more oil and gas reserves and is refining about twice as much crude. However, the American company is larger in marketing of refined products.

You may also be interested to know that I was born in southern Alberta and raised on a ranch in the Cardston district. My wife and three of our five children were also born in southern Alberta. I graduated from the University

of Alberta with a degree in agriculture and economics and was engaged in farming and sheep ranching through the difficult years of 1928 to 1934. A combination of discouraging circumstances including a lack of markets in drought finally resulted in my seeking employment as a salesman with a small oil company in Montana. This experience later led to the organization of Husky Oil Company.

This information on my personal background is given only to show you that I have an interest in Canada beyond ordinary business interests. My most satisfying experience since entering the oil business was to return to Canada and in a modest way commence what is now Canadian Husky Oil Limited.

THE NATURE AND IMPORTANCE OF INDEPENDENTS: First, I would like to discuss the nature and importance of what are known as independent oil companies and independent oil operators.

I would just like to interject here: Over the years I think this is the first time I have attempted to make a distinction publicly between independent and majors, because I have always said that there were large and small oil companies, and conditions affecting one to a degree affected the others. The term

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

that has been used here, "majors" and "independents" has come to be recognized through the years to designate two somewhat similar yet different components within the oil industry. Majors are large, well established, usually fully integrated companies, frequently having world-wide interests and well established and varied sources of income. Their common shares are widely distributed, and their activities are directed by what might be termed "professional management."

The term "independents" is used to designate both individual and company operations ranging in size from very small ventures which may comprise only exploration, production or refining to rather substantial enterprises which may be fully integrated. One of their main distinguishing features is that they are usually guided by an individual who is a substantial or even a majority shareholder in the company. In most cases their operations are confined to one nation, and often to one locality. Their limited activities make them particularly vulnerable to dislocations in the oil economy which persist for any extended period.

Their importance to the oil industry, both in the United States and Canada, can be shown by the number of exploratory wells they

have drilled. In the United States, for many years the independents have drilled from 75 to 80 per cent of all exploratory wells. (Independent Petroleum Association of America). In Canada they drilled 46.3 per cent of the exploratory wells in the Prairie provinces from 1949 to 1957. (Yearbooks of The National Oil Scouts and Landman's Association). They also have drilled or participated in 52.3 per cent of the discoveries leading to the 310 oil and gas fields discovered in Canada since 1904 that were in production or were capable of production in 1957. (Compilation of oil and gas fields by Oil in Canada.

Few people realize what an important part independent oil companies and individual operators play in the industry. Because of the headline-grabbing of a few extroverts, the common conception of the independent oil operator is completely erroneous. In contrast to the overpublicized few, the average independent oil operator, of which there are some 30,000 in the United States, has no greater income than many other far less publicized businesses. These thousands of small businessmen are the very heart and soul of the oil industry. When the independent is sick, the industry is sick. Because the oil business supports an entire community of allied industries, it is impossible to affect its welfare

without affecting the economy of the entire country. History has proved this many times in the United States.

If you will pardon my reference to our own company, I would like to discuss the history of Canadian Husky, first because I am familiar with it, and second because I think it portrays quite well how independents operate and something of their value to the oil industry and the general economy of the country.

When we made our decision in 1946 to enter the Canadian oil industry, we began by constructing a small second-hand refinery at Lloydminster. The oil there is a low gravity crude yielding a large percentage of very high-quality asphalt and bunker fuel but a low percentage of high-profit gasoline and distillates. This is a side of the oil business not likely to stimulate the interest of a large company. Our initial investment at Lloydminster was about $150,000. Over the next ten years our own total capital and operating expenditures in the Lloydminster area alone amounted to more than 48 million dollars, and expenditures by other operators who joined with us in development programs in that area have totalled many millions more. We have no way of knowing how much has been spent by operators or producers in the area working independently from

our operations, but we assume that it has been at least equal to or more than we have spent.

Any comparison of Lloydminster today with 1946 will show the contribution of independents to its development. From a small town dependent almost entirely upon agriculture for its economic livelihood, Lloydminster has become the tenth city in Alberta and Saskatchewan, with a high degree of industrialization. It is a clean, progressive city whose citizens enjoy a standard of living comparable to that of many larger cities.

I do not mean to imply that Canadian Husky has been entirely responsible for this growth. But we have been a major factor and we, along with many other small independent companies, are responsible for the changed economy and growth of Lloydminster. I am sure than any impartial study of the activities of independents throughout Western Canada would give them credit for being a major factor in the improvement of not only Western Canada's but the entire nation's over-all economy.

CRUDE OIL MARKETS.

I know the Commission realizes that the real problem facing the young, dynamic oil industry in Canada today is lack of markets for the crude oil it is presently able to produce. I have been surprised at the number of suggestions made to the Commission that export of crude to the United States is the answer to our shortage of markets in the foreseeable future. This to me represents wishful thinking.

Let us consider for a moment the oil situation on a world-wide basis, because I think the world-wide situation is definitely affecting both the United States and Canada. While I have been unable to obtain figures on world oil productive capacity, I doubt that any oil company official would question the statement that today we have a greater world surplus of oil than has ever been known in the history of the industry. What is more, the search for oil is proceeding at such a terrific pace that every indication points to still greater surpluses before production and consumption can be brought into balance. To illustrate the pace of foreign exploration by American companies and world companies, I would like to submit the report 'The Shift of World Petroleum Power Away From the United States', by Leonard M. Fanning, as Appendix A to this submission. This report is widely circulated,

and it is quite possible you may already have it in your files. Even though it draws some different conclusions from what I am attempting to draw concerning imports, I still think it has very valuable information on world oil conditions and I believe it would be valuable information generally to have in your files. Table 7 in the report shows the scope of world exploration. I will not refer to that now, but the Commission on referring to it will see that Table 7 shows that exploration has grown from 28 companies to 162 companies. How many years it will take to balance production and consumption, I certainly am not in a position to hazard a guess.

However, I do know that the increasing and excessive importation of foreign crude oil and products since the end of World War II has had a tremendous impact on the independent oil man in the United States. The following table shows the steady upward trend in imports of crude oil and finished products:

IMPORTS OF CRUDE OIL
AND REFINED PRODUCTS INTO UNITED STATES
(Daily Average Barrels)

	Crude Oil	Refined Products	Total
1948	353,000	161,000	514,000
1949	421,000	224,000	645,000
1950	487,000	363,000	850,000
1951	491,000	354,000	844,000
1952	573,000	380,000	952,000
1953	648,000	386,000	1,034,000
1954	656,000	396,000	1,052,000
1955	782,000	466,000	1,248,000
1956	934,000	502,000	1,436,000
1957	997,000	548,000	1,544,000

Source: American Petroleum Institute, Statistical Bulletin, Vol. XXXIX, No. 18, April 7, 1958, Form No. 7.

This means that over 563 million barrels were imported into the United States during 1957, notwithstanding the plight of the United States producer who had no foreign oil to bolster his income. These imports have resulted in a steady decline in the allowable production during the last six years in Texas, the largest producing state:

Year	Average allowable production in days per month
1952	21
1953	19
1954	16
1955	16
1956	15.8
1957	14
First 6 months 1958	8

If the present decreased allowables and increased imports of crude and finished products continues long, many independents will be in difficult circumstances. As one oil man so aptly put it, "There is no immediate danger of our country running out of oil. But there is a very real danger of running out of oil men."

Now let us see how reduced markets have affected the American independent since World War II. I know of no better example of their plight than the story of Glenn McCarthy. After the war, the McCarthy star rose fast as the spectacular oil man discovered one oil field after another. He had big plans. He

wanted his money to work for him and for his community, to create jobs and wealth for himself and many other people.

To carry out his plans, he needed cash. So he borrowed huge sums, using his oil reserves as collateral and pledging his production to pay off the loans. He built a gasoline plant, a chemical plant, and the famous Shamrock hotel in Houston. He established 14 newspapers, a natural gas distributing company, and a motion picture production firm. He bought a radio station and a steel mill. He created dozens of payrolls and hundreds of jobs. He was a one-man boom.

Then the State of Texas found it necessary to drastically curtail oil production as imports cut into markets. That pulled the rug out from under McCarthy. There were other considerations, of course, but the cut in Glenn's oil income made it impossible for him to pay off his creditors as scheduled. I can say from personal knowledge of some of his observations that his rate of pay-off was in the 12 to 15-year category and not in the 4 to 5 that most Canadian operators are forced to borrow today. The crash was heard round the world.

I might add that properties which were taken over by the receivers have not only paid off the obligations in full but still have a residual

value of many millions of dollars. McCarthy's problem was basically that which faces many independents in the United States where they are forced to operate on borrowed capital. I am afraid it is comparable to what many are facing today in Canada.

Now, let us turn to our own situation here in Canada. Less than half of Canada's petroleum needs are supplied from her own production. In 1957, 53.5 per cent of Canada's consumption consisted of imported crude and refined products. (Compiled from Dominion Bureau of Statistics 'Refined Petroleum Products -- 1957.) During the same period, her own wells were producing at the rate of only 57 per cent of their potential, and a portion of this production was being exported to the United States. (Canadian Petroleum Association)

We must also remember that during the early months of 1957, both Canada and the United States were attempting to make available 500,000 barrels per day of crude oil to meet the oil crisis in Europe created by the closing of the Suez Canal. This 57 per cent included this rather abnormal demand. From the first of January until June, I was one of five men who served on an advisory board appointed by the President. We averaged a trip to Washington every two weeks in an attempt to meet this objective without dislocating domestic requirements.

I am happy to tell you that we did so, but since the first of this year our markets are not absorbing more than 40 to 45 per cent of the potential production. I do not have definite figures on the 40 to 45 per cent, but our production department assures me that they think those figures are conservative.

I do not pretend to be an economist who can evaluate the policy of continuing to purchase foreign crude and refined products while our own natural resources are shut in. But it does not take an economist to forecast rather accurately what the effect will be upon the economy of the independent oil operators of Canada if this condition continues. Nor will I hesitate to state that if this condition continues, the oil industry, particularly the smaller operators, will not be in the healthy position that has enabled them to develop this wonderful natural resource so rapidly for Canada. It is my firm belief that anything that affects the economy of the oil industry affects the economy of Canada.

If I may, I would like to refer again to Canadian Husky to illustrate the seriousness of present conditions. In 1957, our cash flow from oil and gas production amounted to $1,107,356. Had we been able to produce and sell crude oil at our maximum permissible rate, our cash flow from oil

production alone would have been in excess of $4 million. Perhaps I should interject there that we are one of, I believe, some 28 companies, which includes many of the large companies, most of them I believe, that have production in fields that have large potentials, such as Westerose or Sturgeon Lake area -- with a much lower percentage pro rata than the overall production of Canada. If we had been able to market even the minimum amount of natural gas under two contracts which we have signed, this would have added another $2 million to our cash flow.

In developing these resources we have incurred annual financial obligations such as sinking fund payments, interest, rentals on leaseback properties and preferred stock dividends which in 1958 will amount to $1,924,000. This means that in 1958 eighty-four per cent of our total cash flow will be required to meet fixed obligations. This leaves only 16 per cent, or $360,000 for depreciation, depletion and exploratory write-offs which last year in our company totalled $2,904,610.

This may appear on the surface to be very poor management. But when you stop to consider that if we could produce our oil and gas at potential, our estimated cash flow for over all operations in 1958 would be in excess of eight and one-third million dollars, well over four times our fixed obligations, it puts management in a better light.

I would like to add that thanks to the wise and helpful assistance of our Canadian investment bankers, Canadian Husky today has over $12 million in cash and available loan commitments. But even with this strong position, we may be hard pressed to meet our obligations if the current lack of markets is unreasonably prolonged. Part of this $12 million is allocated for the drilling of development wells which may or may not be drilled. With today's over-supply of crude oil, I doubt the wisdom of further development drilling beyond that required to retain known productive acreage - and that becomes quite burdensome at times, as the regulations under which everyone is operating are such that a certain amount of activity is required in fields if you are to maintain your leases, and when you have a valuable lease, such as a gas property, and you are forced to go on developing it even

though you can't see a market, it becomes quite a problem. As recently as two weeks ago, our Executive Committee met and decided that further cuts in our drilling program were necessary because of our greatly reduced level of income. I am sure many other small independent operators are faced with similar problems.

To me it is regrettable that independents should be so adversely effected now, with our present world and national surplus of oil, when I sincerely believe in the years ahead all the oil that has been discovered will doubtless be required to meet the growing economic conditions of the world. But this is small consolation to the independent operators who, in the interim, may be forced out of business. Additional market outlets must be found now for Canadian crude if our industry is to maintain a healthy growth.

Referring again to the representations made to this Commission that the natural and logical markets for our crude oil are in the United States, I would like to point out two, at least what seem to me, basic fallacies to this contention.First, as we have already seen, United States producers are facing markets nearly as curtailed as our own. Second, even if the United States were to import all of its petroleum re-

quirements, Canadian crude oil could not compete economically with other foreign crudes except in a few of the border areas.

Some Canadian operators may feel that the movement of their oil into the United States has already been restricted by the United States Government. This assumption is not correct. The restriction has been a competitive one brought about by the purchasers of oil in the United States and not by the voluntary quota system presently being tried.

From the period from July, 1957 to April, 1958, actual imports of Canadian crude into the West Coast were about 25 per cent less than the amount authorized under the voluntary import quotas. Imports by purchasers into Districts I to IV of the United States, the area east of the Rocky Mountains, were nearly nine per cent less than the amount allocated.

Even if greater imports were allowed in the United States the far Eastern, Middle Eastern and Venezuelan producers would take more vigorous steps to secure still larger portions of the market.

The costs of finding and developing a barrel of crude in the various oil producing countries shows how impossible it is for Canadian or United States producers to be competitive.

For the years 1951 to 1955 these costs were: (Petroleum Outlook - March, 1958 published by John S. Herold, Inc.,geologists and engineers.)

United States	$1.12
Canada	.95
Venezuela	.21
Far East	.15
Middle East	.005

The principal reasons for this wide difference in costs are the reserves per well and production per well. For the year 1956 these were: (Petroleum Outlook - November, 1957)

	Total wells	Reserves per well (barrels)	1956 Production per day per well (bbls.)
ed States	554,774	55,000	12.9
da	10,946	260,000	42.4
zuela	13,965	1,005,000	175.9
East (Indonesia)	1,972	3,040,000	130.0
e East			
ait	211	237,000,000	5,179.0
n	65	492,000,000	8,335.0
di Arabia	114	369,000,000	8,650.3
q	48	460,000,000	13,286.7

With reference to these figures, I can't carry my imagination much further. Occasionally I have heard of million barrel wells, and we occasionally have a few of them, but when we get to Kuwait, when you can imagine 211 wells with a reserve of 237 million per well, that is why I say we can't be competitive. There the costs are coming down to half a cent per barrel.

In the Chicago-Detroit-Toledo area, which has been suggested as a potential market for Canadian crude, refineries are already served by

a network of pipelines from the producing areas of the Southwest and Mountain states. Any gains by Canadian producers would be at the expense of United States producers who are fully capable of supplying this market. As long as low-priced foreign crude is imported into areas where the United States producers are at a price disadvantage, I see little possibility of their relinquishing even a portion of the Chicago market to Canadian crude.

The handling of the import problem in the United States and Canada reminds me of a story told recently by an independent oil operator. He stated that this import problem reminded him of a recent visit to a mental hospital. One of the tests they used for determing whether the mental capacity of a patient was sufficient to justify his release was to put the patient in a room with a mop and a water faucet running. The task assigned was to mop up the water. If the patient did not turn off the faucet but merely kept on mopping, he was kept at the hospital for further treatment.

I think this analogy illustrates the way we are handling the import problem on both sides of the border. In fact, the patient is gradually opening the tap a little more in the United States each year, as you can see.

The only area where we can exercise

control of markets for our oil is Eastern Canada. I see no hope except to construct a crude oil pipeline to the Montreal area. I would just like to inject there that I have no particular brief for position for a new line. Personally, I would be in favour of the most economical means that could be found if this were to be done, either through increasing interprovincial pipe line or through the rather, it seems to me, difficult but not impossible situation of trading with the United States on a geographical area. That would be the most economical way to do it if it could be worked out. But at the time the Trans-Canada pipe line was being discussed I thought somebody would go back and point out to Mr. Howe the logical approach of bringing in natural gas to Eastern Canada through existing pipe lines and construct the cheaper, less expensive pipe lines to areas geographically nearer to Western Canada would make a little sense, and I attempted to do that but I found there was a definite feeling at that time that Canada's interest could best be served by an all-Canadian line even though it cost some tremendous millions of dollars over what some exchange would be.

So I would like the Commission to feel that personally I would think that the most economical approach is the one that should be

followed, but I don't feel that I am in a position to suggest to the Government of Canada which is the preferable route for them to follow. That, I think, is a problem for the economists, perhaps your Commission, and others who are making a more detailed study of this situation, to make suggestions than I am. Only through the building of this line and direct government action to restrict imports can we assure additional markets for Western Canadian crude production.

I will refrain from making any reference to the economics of building an oil pipeline to supply the Eastern Canadian markets because I know that other operators have presented rather complete briefs on this topic. However, I would like to make this observation: The Trans-Canada gas pipeline was originally regarded as uneconomical. For security reasons, the Government saw fit to assist in its construction. Today it appears to be completely able to stand on its own feet and liquidate the cost of building it in a reasonable period of time.

A crude oil line to Montreal should also be considered in the light of our national defense. From this standpoint alone, such a pipeline might be justified. I need not remind the Commission that our domestic and industrial energy requirements are many times more dependent on petroleum now

than in 1939. Should war cut off foreign crude supplies, our eastern industry would be very seriously crippled.

I was interested - I am sorry, I don't have sufficient copies to pass around - in a little report that was put out by the A.P.I. and they had made a study of 36 countries in their per capita consumption of energy and their per capita income. The United States stood first in per capita income, with Canada second, and the United States and Canada were first and second in their per capita consumption of energy. While the table doesn't follow true in each case of the 36 countries, there is a definite relationship established there that the per capita consumption of energy has a direct relation to the per capita income, and if the Commission wishes additional information, I would be glad to submit it later.

The economy of Canada and the United States develops this import situation in that in the United States the oil industry and the consumption was originally started on the production of the United States crude and for a great many years there was not any thought of imports but gradually the oil importation started and it has been rather like the camel getting his head into the proverbial tent and going on in.

Historically, our Canadian industry has been developed on the basis of imports and exports, primarily because in our early days we did not have enough production to supply all of our own markets. But we have completely changed our position since then. Our productive capacity now exceeds even our total Canadian markets, and all authorities agree that we will find more oil in the future than we have found to date. It is high time we looked to our own markets to sustain our growth of the economy of Canada.

The problem now and for the foreseeable future is to maintain markets which will encourage maximum development of the Canadian oil industry and make it possible for independent oil companies to stay in business. I feel that this can only be done by reserving our Canadian markets for Canadian crude production. It seems wrong to me that Canada, the world's third largest consumer of petroleum

products, should look beyond its own borders for a market for its crude oil production while at the same time allowing more than half of its own market to be supplied from foreign sources.

Now, if I may refer to this natural gas situation. Another serious problem is the lack of a clear-cut government policy for the export of natural gas. This presents a paradox that I have been unable to understand. With respect to oil, we are not only seeking markets in the United States, but we are critical of the United States for not playing the big brother in purchasing our oil. At the same time, we are sitting here with tremendous reserves of natural gas, unable or unwilling to reach a decision on an export policy.

There are American markets available and purchasers now ready to buy hundreds of millions of cubic feet per day, and one purchaser anticipates their requirements to exceed one billion cubic feet per day in a comparatively short period of years. I am quite familiar with the legal battles presently before the Federal Power Commission, and I attribute some of the delays to this condition. But Canada is primarily responsible for withholding this great potential source of revenue from market by making a political football out of the gas export question.

Of course, I can understand why governments should be concerned about first supplying the

requirements of their own people. But when conservative engineers estimate Canada's present supply of gas at 24 trillion cubic feet -- I hesitate to use any figure because it is changing all the time -- and all agree that this is only a minor part of what exists and will be discovered if gas isallowed to serve markets, I cannot understand why there should be any further hesitation to export the surplus of this vast natural resource.

I think the oil industry helps the economy of a country in two ways, first, it helps it in its very expenditures to develop the resources. In the case of natural gas it would require higher gathering systems which would mean the expenditure of tremendous amounts of money.

It staggers my imagination to contemplate what the development of this one natural resource alone can do for the economy of Canada. However, markets that have been available in the much coveted Chicago-Milwaukee-Minneapolis area, the Pacific Northwest and California are gradually being supplied from other areas while Canada is trying to decide what action should be taken.

For three years I sat on the board of directors of Northern Natural Gas Company of Omaha. During that time I observed the battles of Northern and other companies to purchase Canadian gas. I also observed the extension and expansion of the

capacity of the lines of various companies to the south when they would have preferred to build new lines to use the closer Canadian reserves that even then were available. The same thing happened on the Pacific Coast. The Commission is familiar with the line that has been built from the southern part of the United States all the way to the Pacific Northwest to serve a market that was potentially one of Canada's best natural markets.

Once these pipelines are built they are rather permanent things. I sat on the Northern Natural Board and I saw them try to gather their requirements by purchasing and by writing longer contracts in the Permian Basin and other places to the south and, understanding their capacity on their lines, they would have much preferred to tap the Canadian markets.

I hope you will pardon my being so disturbed over the delay in the export of natural gas, but my interest in Canada makes me feel that governmental bodies should have encouraged the export of gas in every possible way instead of continually delaying it.

You must remember this gas that has been discovered in Canada at the present time has been incidental to the search for oil. Taking our own situation in Savannah Creek and Dick Lake areas, we are dragging our feet to drill additional wells.

We have gone to the Alberta Government repeatedly to get relief from having to drill these expensive wells to hold what seems to be one of the most potentially valuable fields that we as a small company have ever had the privilege of participating in. We have to drill a certain amount of these wells or we have to surrender acreage that might be valuable; but we are only drilling the minimum -- not one more than is necessary. We anticipate that this field will expand considerably beyond what the engineers are presently giving it when they reach this total of 24 trillion cubic feet. I think the same thing is true generally of a lot of gas fields in Canada.

I hope the Commission will at least recommend to the Government that some action be taken on this situation because it does not seem right to me that here we are criticizing the United States because they are not taking crude oil but the United States is willing to take gas. Certainly, as a producer I am not proud as to whether I get income from oil or from gas, either one will help me to pay my bills. Why can we not get the export of gas? That seems the biggest mistake to me, to hold back this export of gas. I suppose you gentlemen have heard a great deal about that.

There were eight questions suggested by your good secretary that he thought the Commission

would like to have me answer and I think I have partially answered these but to give more direct answers I would refer to each question.

The first question is, what is the effect of reduced crude oil markets on independents? I think I have pretty well answered that but normally, the independent relies largely on the sale of production to finance its increasing or expanding operations. It must have a continuing or expanding market rather than a reduced market if it is to stay in business and operate effectively.

The second question was: would independents be endangered each time crude markets were reduced?

The management of an independent anticipates fluctuating markets and is usually able to cope with the normal cycles of supply and demand without being seriously affected. However, extended periods of market curtailment caused by external factors, overwhich we have no control, can be very serious threats to their existence.

3. Can danger to independents caused by reduced markets be avoided?

To my knowledge, there is no way to prevent hardship to some independents each time a period of reduced crude oil markets occurs, and I do not believe preventive measures designed to eliminate all risks would be desirable even if

they were possible.

However, the independent's vulnerability to adverse external factors, such as foreign crude oil markets, can be lessened by government-enforced import quotas.

4. Are independents more important in the United States than in Canada?

The figures previously given show that independents in the United States drill 75 to 80 per cent of the total exploratory wells as compared to 46.3 per cent in Canada. I have no other specific information upon which to base an answer to this question, but it is my opinion, based on observation of independents in both countries, that the reason they played a lesser role in Canada is due to the taxation laws presently in effect. I shall refer more to this problem under question seven.

I do not believe, Mr. Frawley, as Premier Manning stated some time ago, that this was due to private and independent operators in Canada not having faith in their own industry that had caused this lesser participation. I am quite convinced that the reason for it is the tax laws in Canada compared to the tax laws in the United States. I think we are in a pretty good position to have knowledge in that respect because we, as small operators, have attempted to obtain acreage, develop it to a certain position, then go to sources of

money to help us in developing that production to carry on, to back part of the load and we try to wind up with the smaller percentage at a lesser cost.

One of the first experiences I had after we really started in this field, our company assembled some four or five million acres in Alberta and Saskatchewan and we were put in touch with some Canadian money that were desirous of getting into the oil business, the Chase National Bank. We found they were unable to participate in the program on a basis that gave them any tax advantage that they would have had in the United States. I refer to the privilege of anyone with income in the United States participating in the drilling of a well and charging the intangible part of those costs against their income before they have it calculated for tax. As the Commission knows, that is not possible here in Canada so as a result instead of this particular Canadian money participating, that is at that time, we went to Phillips Petroleum who agreed to put up two-thirds of the money for half interest in this project.

Well, just shortly after that another group approached us from New York; said they were familiar with the deal we had made with Phillips, suggested that they would give us enough to return the money we already had invested and pick up another one-third of the cost for a quarter interest.

I have never been too good in mathematics, but it did not take me long to figure two-thirds and a quarter and realize we would realize a quarter free interest left in this project by making that kind of a deal.

The only reason that it wasn't Canadian money participating in that play, which turned out to be a very valuable one for all concerned, was the tax laws that prevented the company we went to originally from participating on a basis comparable to what someone operating in the United States could do. There is no question in my mind that that is the reason you have 46 per cent of the exploratory wells drilled in Canada being drilled by independents, when 75 to 80 per cent of them are drilled by independents in the United States.

I delivered a brief at that time -- I am referring to a little ahead of the text here -- back on November 25th, 1955, to the Royal Commission dealing more fully with that, and two or three other aspects of the tax situation, the cost depletion or the lack of it, and I would like to

include that as Appendix "B", as part of this submission also.

5. Is the small independent in Canada more vulnerable than the large independent?

I do not believe that the size of an independent determines the degree of its vulnerability except to the extent that larger companies may find it easier to finance their operations and may have more varied sources of operating income. Independents large and small in both countries are very vulnerable to competition with foreign produced crude oil.

6. Would the Canadian economy be seriously affected by consolidation of independents?

I would say, as a general observation, that consolidation results in larger companies which require more restricted and conservative operations with less flexibility. Therefore, consolidation does have an adverse effect on the economy.

If consolidations are made voluntarily by both parties, they are generally equitable to all concerned, including shareholders. On the other hand, in periods of extremely adverse conditions such as we have now, many consolidations become forced sales. Under these conditions, realization of a fair value of assets can be considerably less than their

[illegible]

their true worth. The exercise of prudent business judgment should be the motivation for the decision to amalgamate, not the necessity of liquidating to satisfy creditors.

7. How do methods of financing weaken independents?

The very nature of the oil business requires long-term money. The expensive drilling and development of oil and gas wells usually result in an asset which will produce revenue from 10 to 20 years and sometimes a larger number of years. Long-term money is just not available to the small independent on the same basis as to the larger companies.

Well, he doesn't have quite the same competitive position, particularly when you link that with the tax situation which governs him from getting the money that otherwise might assist him.

As I have shown in the case of Canadian Husky, during periods of severely depressed markets, debt retirement and other fixed obligations which must be paid after taxes may leave little or no funds from operating income for use in the search for oil. If an independent continues to deplete its reserves without adding to them, it is soon out of business.

The answer to this question is not

complete without reference to the Canadian tax laws which I have already referred to governing the right of individuals not in the oil business to expense intangible drilling costs. The failure to allow cost depletion also affects the small operator adversely. It is an odd situation, but United States citizens are able to operate in Canada at an advantage over Canadians in similar circumstances.

As I stated in my brief, I have discussed this with a great many people who are in a position of importance, and I do think it is a matter that should be recommended to the Canadian Government to give serious consideration to.

In November of 1955 I submitted a brief to the Royal Commission on Canada's Economic Prospects which deals more fully with these problems and how they affect financing of small companies. I would like the privilege of placing this brief on the record of this Commission as Appendix "B" as part of the answer to questions seven and four.

8. Is the present surplus of crude oil in the United States temporary?

There is no surplus of crude oil in the United States. In fact, the demand is greater than the supply.

If imports of crude oil were controlled in the United States, there would be no surplus

problem there today. But examination of the tables on imports from 1948 through 1957 presents a very discouraging picture for the small operator or company depending on the current sales of his production to pay for the development of his reserves and to finance further exploration. Unless there is an unexpected change of policy in the United States, I am afraid neither Canadian nor United States producers can expect much increased market there.

Surely there can be no question concerning the importance of independents to the economy of the oil industry or to the general economy of Canada itself. Nor should anyone question the seriousness to this economy of the lack of markets caused by imported crudes.

Independent operators may differ in what they believe to be the best course of action in solving the market problems, but all agree that shortage of markets is by far the most important problem confronting them today. They will also agree that there is great urgency to establish policies on both the import and export of oil and natural gas. In the oil business the successful operator must make long-range plans. Without some assurance of favourable future governmental policies, long-range planning is impossible and the outlook for the small company

is anything but promising. May I urge the Commission to give full and careful consideration to these problems and make its recommendations for prompt action to the Government of Canada at the earliest possible date.

APPENDIX "B"

Statement of Glenn E. Nielson
President of Husky Oil & Refining Limited
before the
Royal Commission on Canada's Economic Prospects

Calgary, Alberta,
November 25,1955

To any person interested in Canada and its future welfare, the purposes and possibilities of the Royal Commission on Canada's Economic Prospects are most encouraging. I consider it a privilege to be invited to appear before this Commission. My comments will be limited to certain aspects of the petroleum industry, an industry which I am convinced is destined to play an important role in Canada's future economy.

My personal experiences in Canada began a little over fifty years ago. I was born, raised, educated, married and we had three of our five children before we left the province of Alberta. Between 1928 and 1934, I farmed from 500 to 1,000 acres each year and ran 2,000 sheep. To anyone who farmed or ranched during that period, I need say no more. To others I have often said "My education included agriculture and economics at the University of Alberta, but when the economics went out of agriculture I was forced into a different business." Thus it was more necessity than choice that caused me to leave Canada in 1934 to start over again in the United States. I have made these

personal references only to explain my deep and sincere interest in Canada, its people and its prospects.

In 1938 I organized and started a small oil business which is now known as Husky Oil Company, and when we decided in 1946 to participate in Canada's oil development, I felt a great deal of satisfaction. Young companies such as ours are normally not equipped to make long range economic studies like those made by older and larger companies, so I know there are others who have appeared or can appear before this Commission who are much better qualified to report on the 5-10-20 year future of the oil industry. However, by reason of the problems and difficulties which accompanied the building of two small integrated oil companies, one in Canada and the other in the United States, I do feel qualified to comment on some Canadian laws and regulations that can and do seriously affect the economic prospects of the Canadian petroleum industry and consequently of Canada itself. I have no intention of posing as an expert with technical knowledge of these laws and regulations relating to income taxes and financing, but no management can be unaware of their practical application and make sound business decisions.

In my opinion, the economic prospects of Canada will depend in large measure upon how

[illegible]

well its petroleum resources are developed, and in that regard I would like to read the following statement with which I am in full accord:

"A country's oil resources are best developed when all who are engaged in petroleum operations -- its own nationals and those of foreign nations -- compete on equal terms. Favoured treatment of one group at the expense of another, state monopolies, or state competition in any phase of oil retard maximum development . . . Finding oil calls for the efforts of a great many people of different characteristics. Despite the development of scientific methods, a major factor in discovery is still a willingness of many individuals and competing industry units, exercising independent judgments, to take risks. The chances of finding oil are increased as more people are encouraged to accumulate and venture their capital on their own initiative. The participation of many . . . provides those multiple sources of initiative, imagination and responsibility, out of which springs a great variety of discoveries and inventions, new ideas, and tremendous productivity."

In disregard of such a basic and sound approach for developing the Canadian petroleum

industry, there have been many complaints that U.S. money has come to Canada and taken over the oil business. It is true that considerable U.S. money has contributed to the rapid growth and development of oil and gas in Canada. Frankly, much of the progress of our Canadian company can be traced directly to the availability of certain U.S. capital which we frequently refer to as "tax money". The Canadian laws and regulations which I wish to discuss do not discourage this kind of U.S. money but they effectively block comparable Canadian money. I do not agree with Premier E. C. Manning's suggestion before this Commission that it hasbeen a lack of faith which accounts for their relatively small participation in their country's oil development; rather, it is the tax provisions which are in their law. Strangely enough, it is the Canadian company and Canadian individual who are denied the opportunity to compete on equal terms with their U.S. counterparts.

With this unequal competition, it was only natural that vast sums of U.S. money came to Canada. It was something easy for me to see seven or eight years ago, not because of any great insight or discerning ability, but because I understood the prohibitive effect of certain Canadian income tax regulations on Canadian risk capital. U.S. capital will continue to play a major role in

Canadian oil developments so long as so many sources of Canadian capital are economically precludedfromparticipating. When our Company was first planning to enter the Canadian oil picture, I expressed my feeling of concern at every opportunity to persons prominent in Canadian financial circles. Among them were Dr. W. C. Clark while Deputy Minister of Finance, Graham F. Towers, Governor of the Bank of Canada, S. G. Dobson while president of the Royal Bank of Canada, and Donald Gordon who later became president of the C. N. R.

The first income tax provision I wish to discuss is the one which denies a Canadian individual the privilege of using his income before taxes to drill oil wells. A U.S. taxpayer may deduct such costs from his income regardless of the source of that income, and the result is that the U.S. taxpayer is risking the equivalent of as little as 10 cents on a dollar while the Canadian taxpayer is risking a full 100 cents. A well that could produce oil might be very successful to the U.S. taxpayer because of his small real cost, but it would not necessarily be so to the Canadian taxpayer who has a cost up to ten times greater.

Not only that, but for a Canadian individual to have any right to deduct oil exploration and drilling expenses, he must belong

to a syndicate or partnership. And if he should be a member of two oil syndicates, one with income and the other with excess deductions, he is not entitled to offset one against the other.

Another tax provision is the one which considers costs of acquiring acreage for oil and gas prospecting as capital expenditures. If, after considerably more money is spent in evaluating and testing, the acreage is worthless, the Canadian taxpayer must recoup his acquisition costs after he has paid his income taxes. On the other hand, his U.S. competitor can recoup those costs out of his income before he pays taxes. If the two taxpayers are companies, the economic result is obvious. The real cost to the U.S. company would be just about one-half of the cost to the Canadian company -- or, the U.S. company could afford to pay twice as much to acquire the acreage as the Canadian. The effect of such tax discrimination is not only ridiculous, it can and does have a detrimental result for a Canadian company trying to grow.

Suppose in a given year, a Canadian company raises $200,000 for an oil venture and a U.S. company, having other income, decides to spend $200,000 in Canada in the same way. They might even join together and buy two blocks of acreage costing $200,000 each. To simplify the

[illegible]

example, someone else drills exploratory wells on the two blocks of acreage and one is worthless while the other is successful. The successful acreage produces $50,000 of income for the two companies so that each is entitled to half. From the standpoint of hard economic fact, each company has lost a net $75,000 for that year's effort; $100,000 was lost in the worthless acreage and $25,000 was gained from the other. Yet, the Canadian company must pay taxes on its $25,000 while the U.S. company, though paying Canadian taxes on its $25,000, is entitled to deduct from its other income the $100,000 loss and the Canadian income taxes from its U.S. taxes on other income. Another way of expressing the same situation is that the Canadian company must secure twice as much income as the U.S. company in order to recoup that $100,000 loss.

For a company to continue in the oil business, it must continuously acquire and evaluate new acreage. A young company must use a large amount of its income attempting to find additional production, if it doesn't, it eventually dies. Reasonably, it should be able to measure and plan its activity by the amount of its taxable income, but a Canadian company cannot afford to -- it must gauge its activity by its income remaining after taxes.

The next tax provision which is detrimental to the Canadian participant in oil development is the manner in which the depletion allowance is applied. In the United States, the allowance is applied separately to each producing property and the operator is consequently encouraged to use his income after the depletion allowance for further acquisitions, exploration and development. In fact, if he does not do so he is eventually out of business. However, in Canada, the depletion allowance is applied only after expenditures for further exploration and development so that there is actually little, if any, depletion allowance. This is a real deterrent to a small company looking for oil, and as a matter of pure economics, the Canadian company should quit once it has found some production. Perhaps that is why there are many small Canadian companies not as active as they once were in what must be a never-ending search for new oil.

Another aspect of the depletion allowance is that in Canada there is no choice of method. The theory of percentage depletion is sound because it is based on very practical problems. Yet there should be the opportunity to choose what is termed "cost depletion" which is a depletion allowance directly related to the taxpayer's actual cost in a property. The

purpose of and the principle behind the allowance for depletion is similar to the allowance for depreciation. It is through the allowances for depletion and depreciation that a taxpayer is supposed to be able to recover the cost of his assets which are producing income. However, the unavailability of "cost depletion" to a Canadian oil company results in a severe handicap. An example of that might be as follows:

It is entirely possible for one manufacturing company to have $1,000,000 invested in depreciable assets and another only $200,000 -- yet each earns $100,000 per year before any allowance for depreciation. It would be most unreasonable and unfair to limit the depreciation allowance of each to some arbitrary percentage of its income. Yet that is how the depletion allowance is provided for Canadian oil companies. It is that situation which makes it difficult if not impossible for a small Canadian company to borrow funds to buy developed properties, and why it can't compete in offering the going prices for properties put up for public sale. Without cost depletion, it is almost impossible for a young company to earn enough money after taxes to pay its debts and still grow. Many times our company up here has found desirable blocks of acreage and if it were subject to the U.S. tax laws it could

afford some of them. But up here it can't.

With these income tax provisions handicapping any Canadian desiring to participate, it has been only natural for U.S. capital to play an important role in developing Canada's oil industry.

But other laws and regulations shut off certain sources of capital to Canadians and non-Canadians alike. Once oil is discovered and the reserves properly determined, the oil well and the production from it is better security for a long term loan than is a building of bricks and steel. But it is many years before the investment in an oil or gas well is returned and, as I have indicated, it takes even longer for the Canadian operator. Because of that delay, debt capital must be available which can be repaid over a period of time more related to the income producible from the well. In the United States, the life blood of the small oil producer is long-term mortgage loans, and it was that kind of capital that enabled our U.S. company to grow. However, at one stage in its growth, I became so discouraged with short-term financing that I had made up my mind to sell out if we could not obtain at least a ten-year loan. Over a year of uncertainty passed during which I was constantly seeking a long-term loan. Finally, the Chase National Bank in conjunction with an

insurance company made us our first ten-year loan and I can honestly say that our U.S. company's real progress dated from that time.

Consequently, it was a matter of serious concern to me, when I learned that banks and insurance companies here in Canada were not only unfamiliar with 10 to 15 year loans secured by oil properties but that they were prohibited from making them.

It is true that capital from common stock financing is more available here in Canada than it is in the United States, but there are strict limitations on that. In the early period of a company, common stock money can be very expensive because it discounts value and potential more than any other kind of capital. We have also found that debenture financing is perhaps easier in Canada, but our experience has indicated that it is manufacturing properties not oil properties which adapt themselves to such financing.

I firmly believe that the economic prospects of Canada's petroleum industry are practically unlimited, but by reason of present tax and financing laws and regulations, Canadian citizens and Canadian companies are both handicapped and limited. They should be able to take a bigger part in the development of their oil resources, but because of restrictions on their

[illegible]

ability to use income, the unnatural treatment of costs of acquiring properties, the unrealistic and limited application of the depletion allowance, and the unjustified restrictions on certain sources of funds, they are handicapped in having to compete with foreigners on unequal terms. Without the full participation of Canadians, the entire development of Canada's petroleum industry will suffer.

In 1949, Dr. Joseph E. Pogue, a Vice-President of the Chase National Bank, and one of the world's leading oil economists, made an address before the Investment Dealers' Association of Canada in Toronto in which he said:

> "Experience with oil developments throughout the world has demonstrated that four conditions are necessary to attain really important results. First, the source must be adequate. Second, conditions must be such as to attract a multiplicity of competing efforts, to stimulate the application of complicated and costly technologies, and to encourage the formation of the necessary capital. Third, markets must be available or subject to development. And finally, the setting must be such as to inspire confidence for maintaining a continuity of effort."

I am confident that the undiscovered oil and gas reserves in Canada are greater than will be estimated by even the most optimistic petroleum engineer or economist. I believe even the markets which are now lacking will be developed. The flow of capital into Canada shows clearly that an atmosphere of confidence exists which will maintain that necessary continuous effort.

In the main, politics has stayed out of the oil business in Canada which is absolutely necessary in order to preserve that atmosphere of confidence that is necessary for the free flow of capital. Fortunately, there have not been many instances where political considerations rather than economic ones have influenced the industry's natural development.

There is no question in my mind but that Canada has before it a great and important future. I also realize that the petroleum industry in Canada is relatively new and it is only natural that the income tax and financing regulations have not been tested to the same extent as in the United States. In calling to your attention these adverse tax factors and financing impediments in Canada, I do so with the hope that these obstacles to the most efficient development of this great petroleum industry can be removed. Otherwise, Canadians will not be

allowed to compete on equal terms with others nor will they play their full part in the development of oil in Canada.

MR. NIELSON: Thank you very much, Mr. Chairman, for the privilege of appearing here before you.

THE CHAIRMAN: Thank you, Mr. Nielson. Mr. Pattillo?

MR. PATTILLO: Are you going to have a recess now, Mr. Chairman?

THE CHAIRMAN: Yes, I am quite prepared to do so. I didn't know how long the question period would be.

MR. PATTILLO: Well, I think I do want to develop some things with Mr. Nielson.

THE CHAIRMAN: We will have a ten-minute break, gentlemen.

---Short recess.

THE CHAIRMAN: Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

Mr. Nielson, I think you wish to remark that if anybody wanted to obtain additional copies of your submission, and they would leave their names with you you would be glad to see that they received them?

MR. NIELSON: I would. I am embarrassed that I did not bring more copies. I did not realize that they would be desired.

MR. PATTILLO: Now, may I just ask

you a few questions about Canadian Husky Oil Limited. As I understand it, there are common shares authorized of four million, and outstanding about 2,700,000?

MR. NIELSON: That is about right -- 2,614,000.

MR. PATTILLO: And of those common shares, what proportion are held in Canada?

MR. NIELSON: I am afraid I can't give you that answer at the moment. We do have a report that we have submitted that shows all the stockholders owning about ten thousand shares; that is made a part of this report, but I haven't estimated the percentages.

MR. PATTILLO: Right. In addition to the common stock, there is preference stock?

MR. NIELSON: That is practically all owned in Canada.

MR. PATTILLO: And then debentures, are they largely in Canada too?

MR. NIELSON: Yes, they are largely held in Canada.

MR. PATTILLO: And the first mortgage bonds?

MR. NIELSON: All that financing of that kind, preferred stock, the debentures, the first mortgage bonds, has been done in Canada. There are some portions of it have found their

way to investors in the United States, but I could not again tell you just what percentage.

MR. PATTILLO: As I understood what you said this morning, there are eleven directors; eight of them are living in Canada, and three of them are in the United States and are directors of the American Husky Company?

MR. NIELSON: That is right. That includes myself and two others.

MR. PATTILLO: This problem of the United States oil producer and the Canadian oil producer not having adequate markets to permit full production, does that in any way stem, in your opinion, as a person in the oil business twenty years or more, from the policy of prorationing as carried out in Alberta and in the State of Texas?

MR. NEILSON: I do feel that the programme as carried out by the railroad commission in the State of Texas, and other similar programmes in the United States, have been and are very beneficial to operators, both large and small, and have helped them to keep an orderly approach to marketing, and perhaps could have been more beneficial in the United States if it was extended still further and had some national recognition which they do partly have at the present time, but which could be done still farther.

Now, in Canada, I think what has been done by Alberta has been very beneficial in the overall effects, but again it is always easy to sit on the side and look backwards instead of forwards, and I think certain things could have been done or perhaps could still be done. I do not like to take Alberta alone, because you get one place out of focus where they have market pro ration and the province next to it does not have market pro ration. So, if I could speak of things I know about, it might be helpful if some mechanics were worked out to have the provinces working on similar lines of endeavour in this field. If there is one place I could feel a mistake had been made in Alberta, and applying it to future activities, it would be in the sale of these proven and semi-proven areas that have been put up at public auction. Once an individual or company acquires those properties, economic pressures alone require that they start developing them to get backsome of the large amounts of money that have been spent for the acreage initially plus the cost of developing it. They are unable to withhold that, but if the Government had held back with those proven and semi-proven tracts that have been put up for public bid, we would not have the problems we have today, and still, I think, this continuing exploratory program, which is absolutely necessary in my opinion for the future,

would still have been carrying on, and the only loss the Government would have suffered would be the amounts of money they have acquired from the sale of those various tracts. They would not have lost anything in their royalties, because the production from the other areas would have been equal to the present markets, and I think it could well be a subject to which considerable thought could be given for the future.

MR. PATTILLO: So long as you have these Crown sales being brought on periodically at the rate they are brought on, do you inevitably have the development of a large number of what I call marginal sales, which perhaps might better never have been developed at all?

MR. NIELSON: No, I would not reach that conclusion about marginal sales, Mr. Pattillo. The marginal wells will occur in any exploratory program. We all hope for the large ones, but as long as the well seems to have sufficient potential to pay its costs of drilling and developing, I am afraid there will be somebody that will try to drill them and develop them. So I think that what I had reference to was that you would have less both good and marginal wells if this additional acreage had not been sold.

MR. PATTILLO: But you would have a better relationship to supply and demand?

MR. NIELSON: A much better relationship to supply and demand, and it is only a government that is able to hold back properties that are partially or semi-proven.

MR. PATTILLO: Now, do you agree, from your experience, that so long as you have pro ration as carried out in Texas and in Alberta, to the market demand, that you are going to have any producer who has acreagedrilling it up because he knows the economic allowable, he is going to get some portion of that market no matter how small?

MR. NIELSON: Yes, that is a peculiar situation.

MR. PATTILLO: And it is an uneconomic one, is it not?

MR. NIELSON: We have twice found ourselves in that situation, once in the United States, where we had some potentially valuable acreage in the large Rangely field in Colorado, where with every additional well we drilled we did well to maintain our percentage and for a long period we put some very large amounts of money, for our company at that time, into the drilling of these additional wells, but it never increased our total income. Now, we are in the same position on an overall basis in Canada as we were in that particular field. Here we are forced to keep on drilling to keep a percentage of that income coming into our

companies, where actually we could actually take it out of the wells we already have, if something had been done to hold back the sale of these other areas.

MR. PATTILLO: So that you have as a result a basic uneconomic situation in the oil business as it is carried on today on the continent?

MR. NIELSON: I would say that is correct.

MR. PATTILLO: Well, do you think you correct, or do you not aggravate, such an uneconomic situation if you then try to move your oil to markets which are uneconomic and can only be obtained by government assistance?

MR. NIELSON: Well, that is a very good question. Perhaps I might attempt to illustrate a particular situation as a partial answer to that. If I could refer to the Westerose field, where we have some 13 or 14 percent of the field at the present rate of production, I hesitate to say how many years might be involved before that field is fully depleted, or when we come to calculate the present worth of those oils, even though there is a large reserve. Most engineers will only calculate the amount of present worth on the amount of production that can be produced in the next ten years. Now, the interest on investment and the present

discount on the present worth basis makes almost valueless the oil that is going to be produced after ten years. It could very well, if we put a pencil to it, a little more accurately prove that economically we would be in a better position to market more of that oil at a lesser price today than to extend the life of the field past a period where it has no economic value. I would hesitate to say just what percentage would be in there, but there is a factor that might be economic to us as a company at a lesser price considering that extended life of the field under a pro rated market.

MR. PATTILLO: You have just got a little ahead of me on this. I was going to come to this price business. As a United States independent producer, I assume that you have been in the group that has been resisting imports into the United States?

MR. NIELSON: Yes, we have.

MR. PATTILLO: And I think you would agree with me that the reason you are resisting those imports is that it would not be economic for the refiner to buy a good percentage of United States crude that is available to him if he could bring in his supplies from foreign sources indiscriminately?

MR. NIELSON: That is correct. I would like to add right there that when you take into

consideration that the cost of developing a barrel of crude in the Middle East is 1/2 cent a barrel, that economically we might find, by putting a pencil to it, that more profit could accrue to the owner of that production to bring it by boat to Montreal and then build a pipeline to Western Canada than the other way round.

MR. PATTILLO: I think that might be so.

MR. NIELSON: There is some meeting place anyway. It may not go all the way, but there is some place. Water transportation is very cheap.

MR. PATTILLO: So that if you are looking at the United States as a country that is going to carry on for centuries and you are applying pure laws of economics, what you would do would be to lock up all its oil resources in the ground today and import until the imports were used up, wouldn't you?

MR. NIELSON: I think that might be economically something that you could conclude. However, I do not know on the overall economic picture whether that is correct. I well remember, with our little operation at Lloydminster, which was primarily an asphalt and fuel oil operation, coming back to see Mr. Donald Gordon and Mr. Graham Towers and discussing the need for a

particular reduction in fuel oil rates from Lloydminster back to some of these eastern markets, and that was just at the time when this trade and exchange was almost getting into balance. It was determined at that time that the amount of fuel oil we might ship back into this area which would replace markets at that time being supplied by United States coal would be just sufficient to bring the Canadian exchange into balance, and they gave us those rates, and we shipped quite a volume of crude east for a period, and I rather feel that that contributed to the overall economy.

Now, stepping from that illustration to the economy of Canada generally, having been born and raised here, I always look at the United States dollar being something worth a little more than the Canadian dollar. The first money we sent up here, which you recall, was rather limited; we obtained it at 84 cents on the dollar on the New York markets. Now, I don't think we have any real factor in the oil industry and in the development of this oil industry which brought about these changed conditions, so that is why I said a little while ago that it will probably take somebody with keener vision than I have and better knowledge to evaluate the internal economy of a country and its relationship to its internal production.

Now, I can't help but feel that you just can't logically conclude that it is the best thing for the country to import this crude that costs half a cent per barrel and shut in our own natural resource, although nature hasn't left us with 400 to 500 million barrels per well that the Middle East has been blessed with.

MR. PATTILLO: Do you, as a producer, say that you should go down one road or go down another road, or that you should try and straddle the fence? In other words, at the present time

we do have cheap oil coming into Canada; the refiners in Montreal say that there is no question in their minds that it is much more economic to use that oil than to use Canadian oil here. Producers in the west, on the other hand, say that in their interests, which is in the interests of Canada too, Canada should become self-sufficient and Canadian oil should be moved to Montreal, in the interests of national security, if nothing else. Now, are you in either one of those camps, or do you go down straddling the fence and say, "Well, we should have some of it in Montreal but not necessarily all of it"?

MR. NIELSON: Well, that is a question on which I certainly have mixed feelings.

MR. PATTILLO: Would you expand that?

MR. NIELSON: If I may, I would like to. A combination of reasons has made me particularly conscious of the battle that has been going on between these two great ideologies, communism and free enterprise, on a global basis, but still certain parts of it affecting both economies of the United States and Canada. So I realize that Governments are faced with the problem of trying to evaluate those factors when they determine what should be traded and exchanged between nations. I am afraid that I am not - I would hesitate to put myself on a pedestal where I would say which

direction Canada should go. I know if they go in one direction to continue the markets on a purely competitive basis, your oil industry is going to suffer terrifically.

Now, when you come to national security, it is still very vivid in my mind when the Navy came to our company in Wyoming during World War II we were then running a plant of 2500 barrels a day, and they asked us how much fuel oil we could ship to Seattle. Now, on a confidential basis, they told us that they had ships in the harbour at Seattle that were unable to clear for the Pacific because of the shortage of fuel oil. That was at the time when every tanker that was being put into the Gulf - it was miraculous if they got through without being torpedoed. I think at that period there was a submarine showed up in the St. Lawrence. Well, we went back to Wyoming, and within 28 days we built and put on stream a plant at Riverton, Wyoming, and we increased our capacity where the combination of the two plants was running at 15,000 barrels a day, because that saved tanker cars attempting to haul from Houston, Texas, to Seattle, because there was a terrific shortage of fuel oil to get those ships into the Pacific. I think that is a good example of what can happen from a security standpoint.

Now, it doesn't stretch my imagination

at all to think of what submarines are today compared to what they were at that time, and to believe that all foreign crude could be blocked very effectively from getting into the St. Lawrence to supply the refiners that are now using it.

Now, how to evaluate that, I am going to leave that to this Commission and the Government.

MR. PATTILLO: Would you, as a producer, be prepared, if, in the opinion of the Government, it was necessary in order to move Canadian crude to Montreal, to have regulation of price at the well-head?

MR. NIELSON: Well, I like to have my cake and eat it, too.

MR. PATTILLO: Everybody does.

MR. NIELSON: And I don't like to see Government getting into any area in this free enterprise system, which has made these two countries great, where they are not absolutely necessary.

However, I listened to Mr. Campo yesterday dwell on that subject. If price regulation wasn't in the picture, I don't think there is much question but that supply and demand would keep the economics of crude moving back here in right focus. Now, I realize, however, at the same time I am saying that, if there is one pipe line back here and one buyer you get a monopoly of markets and transportation, and as much as I

dislike changing the view that I have held over these many years, and done much to sustain it, I am gradually reaching the opinion through experience that it is most difficult to do something on a voluntary basis - I imagine if I had the crude in some of those foreign countries I would be just as anxious to sell it and dispose of it as would any of the much-criticised large companies who have it and are attempting to. So it may be that some type of regulations might be necessary; some all-wise Solomon could determine how much that should be. Now, I know there are difficulties; it isn't a clear cut thing.

MR. PATTILLO: Now, regarding pipe lines, in your experience in the oil business, you would agree that if private enterprise is going to build a pipe line they can't raise the money without either throughput agreements by refiners or deficiency agreements.

MR. NIELSON: That is correct; capital is very liquid and flows to wherever there is anticipation of returns.

MR. PATTILLO: And have you ever given any thought to what the situation would be, supposing that the Montreal refiners were persuaded to build a pipe line, as to the responsibilities and duties of the producer? Would it not be so that, assuming that the Montreal market is not an

economic market for Canadian crude, they would be compelled to commit, for a long period of time, their supplies so that the market could be adequately served, whereas, from the very nature of the oil business, in a period of twenty years something is almost bound to happen whereby other markets more economic, yielding better returns would be available? Would you agree that would be so?

MR. NIELSON: Yes, I agree that is correct, and I have thought about it many times. A pipe line once built is very permanent, and it will be there a long time.

MR. PATTILLO: And it takes a long time to pay for it, too.

MR. NIELSON: That is correct. However, gas pipe lines fall into the same category. Producers of gas have accepted as a premise to their ability to sell the necessity of entering into 20 and 25-year contracts to deliver their gas, and that has run into hardships over the years.

MR. PATTILLO: The oil man who is maybe in the gas business has had that approach in recognition of the gas problem, but do you know that the oil people in North America ever accepted that concept as far as the sale of oil is concerned?

MR. NIELSON: I don't know of any sales of oil that have the number of years of commitment that the gas producers have accepted. However, they have contracted for five or more years, and ten years in some particular situations.

MR. PATTILLO: So would you agree with me, Mr. Nielson, that, in order to make it possible for a private enterprise to develop this pipe line to Montreal, it would be essential that the industry get together and that not only the refiners get the necessary throughput or deficiency agreements, but that the producers enter into long-term contracts to supply?

MR. NIELSON: I think it would be absolutely necessary.

MR. PATTILLO: Now, have you ever given any thought to the nature of an oil pipeline and it has been referred to by a number of witnesses as a facility of the industry for moving products from producing fields to marketing fields. Now, if it is such, it might compare to highways and railways which are mere transportation facilities. Have you ever thought about it in that way?

MR. NIELSON: Not until I heard your suggestion yesterday. Pipelines generally have been financed by the industry and it has been true even in most gas pipelines.

MR. PATTILLO: But there is a difference, is there not, between transportation of gas and the transportation of oil in that the person who is in the gas transportation business is also a buyer and seller of the gas. He buys from the producer, transports it and sells it.

MR. NIELSON: Yes, and he has control of markets and control of contracts for supply.

MR. PATTILLO: And, therefore, it is a question with the gas person of regulation rather than public ownership, would you agree?

MR. NIELSON: Well, I stated a while ago that where things approach a certain degree of monopoly because of certain facilities or conditions existing, as much as I dislike to include

the necessity there for some degree of regulation, I am afraid you would have to logically expect some degree of regulation in those circumstances.

MR. PATTILLO: Right. Now, when we are talking about oil pipeline, do you think there is any merit in the idea of public ownership of oil pipelines to be used as facilities available to producers and refiners alike?

MR. NIELSON: I tried to think of that yesterday and I think there may be some merit to it.

The danger, as I see it, is that governments are not disposed to seek out the most economic ways of doing things. I am afraid that the ultimate cost to the consumer and the producer directly and indirectly, I am including taxation necessary to put the money into such a program, might be more expensive than if the same problem was given to the oil operators and refiners to work out themselves. Now, if there was no other way and if the determination of the government was such that national defence justified such a program, I think in the world's unsettled condition today there are many things that are uneconomic but could be justified because of the threat to our very existence.

MR. PATTILLO: Well, Mr. Nielson, personally from your own point of view and I am only asking for your own opinion, would you

agree or disagree that the only justification for moving Canadian oil to Montreal would be national security?

MR. NIELSON: No, I would not personally think that was the only reason. I have pointed out a number of times here our absolute inability as producers in Canada to produce oil competitively with particularly Middle East crude, so I think there is a government decision there on the internal economics of the company and the impact that there would be on the country if there was a complete stoppage, you might say, of development and exploration of this natural resource. I think they must determine whether they want this industry to contribute to the economy of Canada or whether the economy of Canada can best be served by buying these other foreign crudes.

Now, I personally think that the internal economy is being served by the development of these natural resources and I think it will continue to be served by the continuation of the development. Now, when you get to the national defence position, I hesitated to say this because I know we all have fiercely nationalistic feelings, but if there was just some way of making that regulatory fence include the two great countries of the United States and Canada, that would be the most economical and the most solid line of defence for security purposes.

Now, whether that is possible with the feelings of the peoples inthe two countries is a big question mark and that is why I kept pointing out in here the necessity of Canada looking to eastern markets if they are going to bring the internal economy into balance.

MR. PATTILLO: I was going to ask you about that. At the present time you have in the United States these quotas on imports and you have duties on crude too, do you think that if the Canadian Government either by agreement with United States or unilaterally of its own motion imposed similar, identical quotas and duties of imports coming into Canada that such an action would be of any assistance whatsoever in moving more Canadian crude into the United States than is presently being used today?

MR. NIELSON: Well, I hate to keep repeating myself but if I was a producer with crude that cost me half a cent a barrel to get it to the position where I was ready to produce it and if I could open that well up to produce 10,000 to 50,000 barrels per day and in some cases I have been told they can produce as much as 100,000 barrels per well, I might be willing to cut my price to equal -- to offset any duty that might be imposed. I cannot speak for the operators who own that crude; unfortunately for us we do not happen to have any of it. However, it seems to me

there is every possibility of them meeting any kind of a reasonable tariff that might be imposed. On the question of whether anything other than direct control on some percentage basis, if you want to put it that way, or on some allowable import quota basis, would be effective in either country. . . . .

MR. PATTILLO: Well, do you think if you had the same quota control principles in force in Canada so that the same policy prevailed throughout the whole continent, do you think that similarity of policy would in any way assist the movement of Canadian crude into the United States?

MR. NIELSON: Not if it is on a voluntary basis as the one they are attempting to work in the United States because it just does not work. I have watched these quotas repeatedly and as soon as they get enough pressure from the 30,000 small operators the government imposes some regulatory methods or controls.

MR. PATTILLO: Perhaps you used the right word the first time.

MR. NIELSON: There is a tendency to temporarily lower the imports. However, you have barely finished your negotiations and got the pressure off the legislators and the next thing you know there are a few imports coming in. Now, that has happened repeatedly and there are

three times as many imports coming into the United States today as there were ten years ago. Now, this Fanning report that I am including here makes quite a point of the lesser number of wells that are being drilled in the United States. There is only one reason for that, in my book, and that is the shortage of markets. If there were ample markets, our own conditions in Canada and the United States multiplied by the thousands of operators would mean a correspondingly larger number of wells so I think the conclusions based on the number of wells in this report could be questioned.

MR. PATTILLO: Now, you seem to think that Canada has been missing a bet in not moving more rapidly about export of gas.

MR. NIELSON: I definitely do.

MR. PATTILLO: But let me suggest this to you; when the Westcoast tried to export gas and had a permit from the Canadian Government to do so, it was a gentleman by the name of Mr. Fish who lived in the States who was very effective in seeing they would not be able to do it except on his terms. You know that, do you not?

MR. NIELSON: I recognize the difficulties of the Federal Power Commission.

MR. PATTILLO: But you cannot very well blame the Canadian Government for that development,

can you?

MR. NIELSON: No, you cannot blame the Canadian Government for the Federal Power Commission, I am sure of that, but I do feel that there has been hesitation by the Canadian Government in several instances even before the fish line was built that could have headed that line off completely.

MR. PATTILLO: I think the attempt to export gas from Emerson is still under advisement in the States?

MR. NIELSON: That is right.

MR. PATTILLO: It wouldn't have mattered what the Canadian Government had decided about that, with the dog fight that arose before the FPC; there still wouldn't be any gas going through Emerson?

MR. NIELSON: Again there was a period prior to those battles originating when gas could have started moving without the same kind of opposition, but the delay that occurred in there let everybody get their eyes directed towards this source of supply and then the battle was on as to who should get it.

MR. PATTILLO: In other words, once they had a chance to regroup and form battle lines, the fight was on?

MR. NIELSON: That is right.

MR. PATTILLO: But there is going to be no way for the Canadian Government by an export policy preventing that sort of thing continuing to happen?

MR. NIELSON: I wish I could think of some way other than what might be some agreements reached between these two great countries. They seem to have so many problems. That could

be the end, in my opinion, to strive for; something that could be reached on a policy level with the very top of the two governments would be more desirable.

MR. PATTILLO: Those are all the questions I have, Mr. Chairman.

THE CHAIRMAN: Mr. Frawley?

MR. FRAWLEY: Mr. Chairman, I was wondering if it would inconvenience the Commission if I were to consult with Mr. McKinnon. I had not proposed to ask Mr. Nielson any questions, but quite frankly, arising out of Mr. Pattillo's examination and this basic, uneconomic situation in Alberta, I feel I must at least take Mr. McKinnon's instructions as to whether I should pursue that with Mr. Nielson. It is really seven minutes from the adjournment and it would not be convenient for me to pursue -- it would be much more organized and much briefer if I could have a consultation with Mr. McKinnon before examining Mr. Nielson.

THE CHAIRMAN: Certainly. Well, then, we will adjourn for lunch, gentlemen, and reassemble at 2.15 this afternoon.

---Whereupon the hearing adjourned at 12.20 p.m. until 2.15 p.m.

---On resuming at 2.15 p.m.

THE CHAIRMAN: The Commission will now resume its hearing. Mr. Frawley?

MR. FRAWLEY: Thank you, Mr. Chairman. Mr. Nielson, there were just two or three things developed in Mr. Pattillo's questioning of you this morning that I would like to discuss with you for just a moment. On the question of the Crown reserves and the sale of Crown reserves in Alberta, you said substantially to the effect that you thought the only loss to the Crown would be in the loss of the price, and before asking for any further comment from you on that, I would like to call two circumstances to your attention and then invite your further comment.

These circumstances I might say come to me as a result of my instructions from the Conservation Board. The first is the circumstance of privately-owned land draining the Crown land; and the second circumstance is the possibility of inequality as between leaseholds, depending upon the location of the Crown reserve.

With just those general circumstances in mind, Mr. Nielson, would you care to expand upon your statement that you felt that perhaps the only loss to the Crown would be in the loss of the purchase price, or the sale price?

[illegible]

MR. NIELSON: Mr. Frawley, first may I say for the record that I didn't intend any criticism of the administration of any Board or Alberta Government in the way they have handled their oil leasing and other activities. On the contrary, I feel they have been very wise. However, at this moment we do have a surplus of production, for a scarcity of markets. The thought occurred to me that if the Board or Provincial Government or whatever body might be involved, could withhold the sale of Crown reserves in the future, certain considerations might be given to them as one means of still encouraging exploration but still not getting the maximum in development until such time as a need is available on a market basis.

I appreciate that there would be a problem where there is about 30 per cent of the productive area, I understand, now owned privately. I have seen this problem handled in the State of Wyoming when there was a surplus of production over markets by allowing the company or individual owning the offset leases, when they requested that they be not required to drill wells according to standard spacing pattern, to pay a compensatory royalty. I believe a compensatory royalty paid on offset acreage might handle part of that problem.

Perhaps the unitization program, as it is presently in effect, and it is a program that I

am very much in favour of, and I believe Alberta has some very good laws on unitization -- perhaps a combination, requiring unitization and compensatory royalty might compensate for some of those problems, but I only mean it as just a field that might be investigated as a partial answer to this overproduction problem.

MR. FRAWLEY: Thank you, Mr. Nielson. Then, this morning you said, or substantially said that you were made to drill uneconomic wells, and before inviting your comment on that, I would suggest to you these considerations which come to me as considerations from the Conservation Board. I will put them to you in the form of questions:

Is it not true that the fixing of spacing units governs the number of wells required to be drilled to drain the reservoir in a reasonable period of time; and also is it not true that multiple ownership in a common pool enters into the determination of the rate of development, and my question is: in the light of those assumptions would you care to elaborate upon your statement -- I am not quoting you again -- which was substantially to the effect that you felt you had been made to drill uneconomic wells?

MR. NIELSON: When I referred to uneconomic wells, I had reference to the fact that presently in Western Canada as a whole there is possibly as

much production available for markets than we have markets, and I was trying to wonder if there might be some means of, through government assistance or government withholding of acreage, or making wider spacing program, forgetting the economic factors or the technical factors, may be ways of spacing pattern to properly and economically develop that particular property and introduce for consideration the factor of market demand.

Well, I might illustrate: supposing here is a field that the engineers say can be properly drained in the proper length of time on a 40-acre spacing, but there is not the demand for all the production that can be had. Well, for a period might be a point to consider making it 80 or 160-acres spacing rather than requiring the 40-acre. Anything could be practical in reducing the amount of money expended for developing these properties but still allowing exploration to continue. That is what I feel is necessary, and that is to keep exploration growing so that we can determine what the eventual productivity of gas or oil might be in our Western Canada.

MR. FRAWLEY: Now, just in that particular connection, Mr. Nielson, you are aware that as a matter of policy the Conservation Board has gone to wider spacing in the last five years?

MR. NIELSON: Yes, I certainly have been aware of that and I think it has been a very wise move on their part.

MR. FRAWLEY: Now, just one other thing, and that is when you were discussing the gas licence situation this morning, you said, and I have a note of it:

> "You must remember this gas that has been discovered in Canada at the present time has been incidental to the search for oil. Taking our own situation in Savannah Creek and Dick Lake areas, we are dragging our feet to drill additional wells. We have gone to the Alberta Government repeatedly to get relief from having to drill these expensive wells to hold what seems to be one of the most potentially valuable fields that we, as a small company have ever had the privilege of participating in. We have to drill a certain amount of these wells or we have to surrender acreage that might be valuable; but we are only drilling the minimum -- not one more than is necessary."

Now, as I understand the requirements of your gas licence is that you earn acreage in accordance with the money that you spend in drilling. I just wondered if you would have any further observations to make with respect to just what is

the situation under the gas licence system, and what benefits there are to you under that system? Perhaps I should just let you have your statement (witness is handed statement).

MR. NIELSON: Again I would not be fair unless I stated that the Alberta Conservation Board has been, in my opinion, as fair as they could possibly be with our company on the problem of drilling these expensive wells in the Savannah Creek area. So perhaps it would be a little more accurate if I made my comment a little differently and explained that for each well that is drilled on one of these gas licenses we earn a certain amount of acreage. We had a gas lease or leases there of some 70,000 acres. It is a very highly faulted area. It is difficult from surplus indications to delineate and know just where the limits of this field are going to be. So the point I was trying to make was that when there are no markets the delineating of this field -- and there is nothing compulsory from the government; it was purely from a desire on our part to be sure that we got all the acreage that might potentially be productive -- that was forcing us to drill these wells. I had this particularly in my mind when I was talking to the Royal Bank -- Mr. Muir, in fact -- concerning our financial requirements for the next three or four years. I was assured that they would advance us whatever moneys were needed for the development of our oil wells, but he said, "Now, Glen, on this gas, that is another problem. There is no determination of

when you are going to get a market. You will have to hustle that money some other way". That hustling was a little difficult at times, but I realized it was a valuable property. So it was a desire on our part that forced us to try to acquire all the acreage that might be valuable, and not any regulations of the Alberta Government.

MR. FRAWLEY: I am sure you would want me to correct the record. You said, your dealings with the Board, you take no exception to that. You mean the Minister of Mines and Minerals?

MR. NIELSON: That is right. Thank you.

MR. FRAWLEY: Would you, as an operator who carries on business in both the United States and Canada, spell out a little more fully than you did this morning just what are the differences with regard to the provisions in the income tax regulations regarding depletion in the United States and in Canada?

THE CHAIRMAN: Mr. Frawley, do you think it is necessary for us to go into that at this time?

MR. FRAWLEY: You mean, sir, that there are many other ways of obtaining it.

THE CHAIRMAN: From the point of view of the Commission. I can appreciate that, Mr. Nielson having made the statement he made in his brief, that you from the point of view of the

Province of Alberta would have that very much in mind, but I think that the Commission has other sources.

MR. FRAWLEY: It was probably just a case of having here a man who operates on both sides of the line and has inside knowledge.

THE CHAIRMAN: You would be the last one to suggest that others do not operate on both sides of the international border?

MR. FRAWLEY: I have to take that back.

MR. COMMISSIONER LADNER: Mr. Chairman, in fairness to Mr. Frawley I should say that just before leaving the room I expressed to Mr. Frawley my interest in the approach of a business man and his impressions in handling the business of the respective tax laws, and I think it was partly because of my indication that Mr. Frawley put the questions a moment ago, but for my part I think it would be of interest, purely from the technical point of view, because I do a lot of tax work myself, to know how the ordinary business man engaged in the actualities of business approaches it and how he views the application of these laws and his ideas on it -- not a long exposition on it, but his ideas on it so far as the United States and Canada are concerned.

THE CHAIRMAN: You mean, Mr. Commissioner, that Mr. Nielson's views on this would be of great

help to the legal profession? Go ahead, Mr. Nielson.

MR. COMMISSIONER LADNER: Even on that basis, I would be better able to judge when he had made his statement.

MR. COMMISSIONER HARDY: There is a good deal of that information in Appendix B, isn't there?

MR. NIELSON: It is rather fully covered there.

MR. COMMISSIONER LADNER: That alters the situation as far as I am concerned. If it is there, I do not want it again.

MR. NIELSON: I can give a very brief summary if you would care to have it.

MR. COMMISSIONER LADNER: I would.

MR. NIELSON: In the first place, the search for oil and gas has been such over the years in United States that they have given the privilege of deducting from any person's income the amount of money spent on intangible drilling costs. The intangible drilling costs are the costs other than the casings, the tanks, and the tangible part of the drilling. They are able to deduct that as part of the cost of operations, whether it is a dry hole or a productive well.

MR. COMMISSIONER LADNER: That is from any income they have from any source?

MR. NIELSON: Yes. One reason why a large amount of Canadian money has not participated

[illegible]

in this production of oil is that there has not been the privilege to deduct intangible drilling costs. Another point to which I took exception was on depletion. It is a rather detailed question there. It is more the manner of calculating it between the two countries, which limits the depletion more than it is limited in the United States. I think I will leave it to the brief here and the other submission, which will answer that more fully. Another problem of equal importance to our company is the inability to take what is known as cost depletion. If we purchase a property that, for example, might have 2 million barrels of oil in it according to the geologist's estimate and we pay $1 million for it, to make the illustration simple, as we produce that oil in the United States we can deduct 50 per cent of the cost, or 50 cents, as the cost of depletion as we produce each barrel. 50 cents a barrel could be deducted. On that basis we can eventually recover our cost before taxation, while in Canada, if we purchased the same property, we would have no provision for cost depletion, and so the money we pay for it must be after taxes, and it costs us twice as much to purchase a property. I might make an analogy to the grain elevators out here that would be comparable. The one over here you pay $1 million for, and the other you pay $2 million for. Now, the one who pays $2 million

can take depreciation on those physical assets on the $2 million, but maybe both elevators might conceivably handle the same amount of grain and both produce just as much revenue, but the other operator takes the lesser amount. You need that relationship particularly for the small company to enable them to purchase properties.

Those are three fields where I feel there is some question. Then, of course, the privilege between the United States and Canada of interchange of tax regulations: I do not think anyone would want to limit the money that has entered into Canada to help in the development of this great industry from the United States. My only point is that I think it would be wise to make those provisions so that Canadian capital likewise could compete and participate.

MR. FRAWLEY: Mr. Nielson, there is only one final question. Running through your brief is the theme that your production has been shut back, and I would just like to complete the record by asking you if you know, percentagewise, the relationship between what you are permitted to produce because of the shortage of markets and what you would be able to produce -- in other words, your producibility.

MR. NIELSON: I am glad you asked that question. I mentioned this morning that we were

one of 28 companies that were not reaching the 40 or 45 per cent. I believe one study gives us 17 1/2 per cent, and I believe there is only one company that is 1/2 per cent below us. Our own department, before I left, said that they felt that in the past month we had only produced about 14 per cent of our potential out of some of these larger fields. The reason for that is that a big share of our production is in these fields like Westerose and Sturgeon Lake, which have high potential productive capacity, but the combination of costs of drilling and other factors have limited the allowables to this lesser percentage.

MR. FRAWLEY: Thank you, Mr. Nielson. Those are all my questions.

THE CHAIRMAN: Thank you, Mr. Frawley.

MR. COMMISSIONER HARDY: Mr. Chairman, I would like to ask Mr. Nielson one or two questions on the type of business that Husky is operating in, because I think he has perhaps been overly modest in taking credit for the contribution that Husky Oil has made as an independent. As I understand it, Mr. Nielson, you originally came into Alberta and deliberately went into a low gravity field, where the outlets at the time were very meagre, and developed your business first of all around the sale of asphalt?

MR. NIELSON: And fuel oil.

MR. COMMISSIONER HARDY: And fuel oil, yes. And I think it is fair to say that one of the results of that operation was that the quality of the asphalt that became available for the western provinces was improved. Would you admit that or not?

MR. NIELSON: I would like to take credit for it. We sent men that we considered as experts to deal with all of these provincial governments and also at Ottawa in recommending specifications that we thought regulated increased quality of asphalt.

MR. COMMISSIONER HARDY: That asphalt was marketed? You marketed quite a bit in the coal industry for briquetting?

MR. NIELSON: Yes, that is correct.

MR. COMMISSIONER HARDY: Are you still marketing any?

MR. NIELSON: That market has entirely disappeared; we have a small market left.

MR. COMMISSIONER HARDY: How about the roofing business?

MR. NIELSON: Increasing all the time.

MR. COMMISSIONER HARDY: And industry has come into the Prairies and established secondary industry which is based on asphalt supply?

MR. NIELSON: Yes. I might refer to one industry in particular, the Sidney Roofing. We induced them to build what turned out to be a million dollar plant adjacent to our refinery; in fact, we sold them the land to make that possible so that we could pipe hot asphalt directly to their plant which they use in the manufacture of shingles and so on.

MR. COMMISSIONER HARDY: In those days, as I understand it, when you first started up, in order to increase your production of higher-priced products, you had to sell an additional barrel of asphalt, as it were?

MR. NIELSON: That is correct, particularly fuel oil. Our real volume market when we first started was fuel oil, when there was a distinct need on the railroads and some of the eastern markets I referred to this morning.

MR. COMMISSIONER HARDY: In other words, your operation was more or less backwards as compared to some of the larger refineries?

MR. NIELSON: Yes.

MR. COMMISSIONER HARDY: Where your basic product was asphalt?

MR. NIELSON: Yes.

MR. COMMISSIONER HARDY: And your whole marketing scheme had to be built around that?

MR. NIELSON: Yes.

MR. COMMISSIONER HARDY: You have changed somewhat from that situation, haven't you?

MR. NIELSON: Yes, we are gradually changing.

MR. COMMISSIONER HARDY: Can you tell me briefly what that has amounted to in terms of percentage of products?

MR. NIELSON: I am sorry that I am unable to give it to you in figures. I would be glad to supply it to the Commission. I can say this, that we have since acquired a refinery at Moose Jaw and one at Lloydminster, and we have changed our operations somewhat at Lloydminster. to produce more gasoline and lighter products, more profitable products, primarily because the fuel oil market is disappearing. But our asphalt market is still increasing; there is more and more asphalt being used. The heavy fuel oil

is gradually disappearing and being replaced by diesel fuels, and will be replaced more by natural gas.

MR. COMMISSIONER HARDY: What percentage of your output are you marketing directly to the consumer, approximately?

MR. NIELSON: A big percentage, because we have established our own service stations. The asphalt goes directly to the consumer, the heavy industrial fuel oil goes directly to the consumer. I would think in excess of 90 per cent must be marketed directly to the consumer of all products.

MR. COMMISSIONER HARDY: So you are getting close to being a completely integrated company?

MR. NIELSON: Yes. We have accepted the blame or the credit for going into this.

MR. COMMISSIONER HARDY: There is just one other question I would like to ask you. In your listing cost that you have in your report here, these figures of half a cent a barrel in the Middle East, is it not a slight exaggeration -- it is on page 15 of your brief -- to use those figures as giving a proper indication of what the competitive situation is with oil on this continent and Middle East oil? You can't get that Middle East oil for half a cent a barrel, you can't put it on a tanker for that?

MR. NIELSON: I am sorry if that conclusion was drawn from my remarks. If we add the cost of pipe line transportation, plus the cost of tanker transportation, that would be more comparative.

MR. COMMISSIONER HARDY: We had the figures for one operation, but the information we have put on the record here is that listing costs, figures such as those, are far from being proper figures to use in making an economic analysis, because -- well, for example, we have had one figure given to us that the profit on a barrel of oil is remarkably consistent throughout the world at a dollar plus or minus 30 per cent, and 50 per cent of the operation goes to the shieks or somebody in a similar position, or maybe more. But you can't cut those down indefinitely in figuring your economic position as regards the Montreal market, can you?

MR. NIELSON: It is a strange situation. But actually I believe that there would be less costs involved at the well site to produce 100,000 barrels a day from the well -- I am talking about actual dollar cost per barrel -- than there would be cost per barrel -- let's take days per well: there is less cost on a day's operation to produce in the Middle East at 10,000 or 15,000 or 20,000 barrels a day than there would be a 10-barrel per day well in the Lloydminster field. We have pumping costs, we have costs of cleaning out the

well, we have costs of separating the sand and the water from the oil. While you have a flowing well, all you have got to do is regulate that valve and it goes into your pipe line.

The point I was attempting to make was that the marginal producing wells, every barrel of which has contributed some revenue to the respective governments, has helped to bring about this programme at Lloydminster that you are giving us credit for, which I sincerey believe has helped the overall economy proportionately to the amount of dollars spent in Canada. But it really costs more to produce one of those wells in dollars and cents than it does in the Middle East.

Regardless of the position of the shieks and the cost of transportation, I think if anybody could just put a pencil to that problem, you would find that we are just not competitive, even after you add the cost of transportation and the pipe line cost and all the other factors that go into the cost of producing Middle East crude.

MR. COMMISSIONER HARDY: I would agree with that except that I can't see that we are as far out of line as you suggest in the analysis of the figures you gave us here.

MR. NIELSON: I didn't mean that was the final cost, and I am glad you corrected it.

THE CHAIRMAN: The only comment I would

like to make would be maybe the shieks would be the ones who would put the pencil.

MR. NIELSON: I don't think they need a pencil; I think all they need to do is watch their bank accounts.

MR. COMMISSIONER BRITNELL: In answer to a question of Mr. Pattillo this morning you said that if we continue on a competitive basis the oil industry is going to suffer enormously. Now, would it be fair to say, then, that the only way to prevent the oil industry suffering is to make everyone else suffer at least an increase in cost by protecting the oil industry and increasing the prices at which consumers buy oil in a pretty large segment of the total Canadian market?

MR. NIELSON: Mr. Britnell, that was the question I attempted to side-step somewhat; but my own opinion is this: the oil industry, to operate, requires, in the first place, casings, it requires a whole host of related products. When you extend those back from the exploration and development and take them back, they will funnel back into every phase of industry in Canada.

Now, then, when you buy oil and bring it into the country you don't have that spreading back to the same extent as you do when you are exploring and developing it; you lose that portion of it. After I have said that, I want to leave it to the

Commission or to the Government to determine whether it is better to bring that product in and let the industry suffer or whether the internal economy is helped more by continuing to protect, if you will, and I think it will be necessary, because I don't believe in any way that we can be competitive with Middle East crude for a big portion of our markets. So I think it is just a question of somebody weighing where and how much controls are put on, because I think the industry is going to suffer quite severely.

MR. COMMISSIONER BRITNELL: Before you can come to any conclusion you have to see that the advantages on the one side are not outweighed by the disadvantages on the other, before you arrive at the net balance of the Canadian economy as a whole?

MR. NIELSON: I think that is correct, and all I am suggesting is that you very carefully evaluate all the ramifications in arriving at that decision.

MR. COMMISSIONER BRITNELL: Now, I should like to refer you to page 15 of your submission, the first sentence of the paragraph which reads:

> "The costs of finding and developing a barrel of crude in the various oil-producing countries shows how impossible it is for Canadian or United States producers to be competitive."

What is included in the developing? I thought I had a pretty fair idea of that. But what about these intangible drilling costs? Are they included in it? How far does developing carry you?

MR. NIELSON: These figures were taken from the Petroleum Outlook of March, 1958, published by John S. Herold, of New York, but my understanding is that they included all the costs with no allowance for intangible drilling deductions. I believe that is correct. That does include, Mr. Britnell, again in my understanding, the cost of searching, acquiring leases, drilling and equipping the well where it is ready to produce.

MR. COMMISSIONER BRITNELL: That leads me to the next paragraph which begins:

> "The principal reasons for this wide difference in costs are the reserves per well and production per well. For the year 1956 these were --"

and then the next column of your table shows an almost violent contrast between production per day per well in the United States and Canada on the one hand as against any of the oil-producing countries of the Middle East. As I understand it, there is quite a wide difference in practice between the concession system as it is employed in the Middle East and the practice followed in enlightened commonwealths like Alberta and Texas. I wonder if you

took, for instance, the MPR in the United States and Canada where, instead of production per well, you wouldn't get quite different figures. That leads me to wonder whether you couldn't afford to reduce the wellhead price.

MR. NIELSON: I am glad you asked that question, because, again, these figures, as I understand it, only take into consideration cost of development, they don't take into consideration the cost of producing the well, and I tried to make the point a short time ago that it costs more to produce a one-barrel-a-day well in Lloydminster than it does a 13-barrel a day well over here.

Again, to answer your question a little more directly, if I use our own company as an example, again referring to what I was attempting to say this morning in figuring the present worth of our production, it is difficult to get a geologist to go beyond a ten-year period. So if we could sell more oil at this time by agreeing to take a somewhat lesser price, and we could contract that amount of oil for some extended period of years, I am afraid you would find a willing seller in Husky in relationship to these long-life, high-reserve-field wells.

MR. COMMISSIONER BRITNELL: I was wondering, and I think you have answered that, whether for instance you could increase the market for Canadian oil by one third almost over night or "over year", whether you could reduce that finding and developing cost from, say, 95 cents to 60 cents or about 35 cents in there.

MR. NIELSON: No. May I correct again, the total reserves have been taken into consideration so it will not change that, but what it will change is the cost per barrel of production from here on out. Now, if we can produce 500 barrels a day from a well in Westerose it will not cost as much as if we are only producing 100 barrels per day. That is quite evident, I think, and that is what I had reference to. These figures would not be changed, they are purely the cost of finding the oil and developing it to the point of being produced.

MR. COMMISSIONER BRITNELL: Now, there is only one question on natural gas - -

THE CHAIRMAN: Pardon me, may I just follow that up with one question before we break the train of thought? That would mean in the event which Mr. Britnell has put to you and your answer would mean more money in the hands of the operator for further development?

MR. NIELSON: To compound an over-

production problem.

THE CHAIRMAN: Am I not right?

MR. NIELSON: We might use a little to pay our debts and get to where we could pay some dividends to the stock holders.

THE CHAIRMAN: Let us assume the answer, perhaps you do not want to answer it directly: You would have a more liquid fund and ostensibly would be going for further exploration and development in order to increase or, at least, replace those reserves which you have been losing with an increased production, is that correct?

MR. NIELSON: That is right. I think any sensible oil company must continue to set a portion of their income for further exploration. That was the point I was greatly concerned with, that our company on the basis of last year's operation, we have only estimated returns for 1958 of some $360,000.00 to use for this purpose which is completely inadequate, so we might be tempted. That is the trouble with independents or the value of them, when they make money they spend it.

THE CHAIRMAN: You would have to do that or be backed out?

MR. NIELSON: That is right.

MR. COMMISSIONER BRITNELL: I had somewhat the same question in mind and I was afraid of being accused of the usual pessimism of the

economists.

MR. NIELSON: I was a little worried about bringing this up to the Commission and that is why I put in our credits here so it would not be reported the next day that we were going out of business.

MR. COMMISSIONER BRITNELL: On page 19 of your brief I was quite surprised when I read the second paragraph and particularly the last line:

> "The Commission is familiar with the line that has been built from the southern part of the United States all the way to the Pacific Northwest to serve a market that was potentially one of Canada's best natural markets".

I know Mr. Pattillo asked you a question in general on your statements there but the thing I would like to be quite certain about is, was there any conceivable action that could have been taken by the Canadian Government or any agency of the Canadian Government that you think could have changed that situation and avoided the building of that line?

MR. NIELSON: Yes, I definitely do say there could have been. I am smiling because I remember an instance back around 1928 when I was married, a promoter decided to drill a well

near Cardstown and he undertook to sell some shares in the drilling of the well. After he had started to drill a little while he thought if he got any gas he would not have any market for the gas, so he had better get the franchise for Cardstown. This he promptly did. He drilled a few more feet and decided he had better get the franchise for the neighbouring towns of McGrath and Raymond which he did. He finally got a puff of gas, enough to blow the old cable tools out of the well and, believe it or not, he single handedly decided that it was going to be too much gas to supply these little towns so he got a permit to export gas to Spokane. That is a matter of record, I understand, at least I have been told it was.

So, in later years, in answering your question directly, had there been less disposition to hold back the export of gas in those early days of discovery in Alberta I am confident that both the Fish line as it was referred to this morning and these other expansions and extensions of lines to the south would never have been made. Now, the Fish line went through a lot of rather difficult times to finance their line. I had dinner with one geologist of international reputation in New York one evening when this was first proposed and he said that there was not sufficient gas available for export to the Pacific Northwest to more than

fill that line once and he wondered if it would ever be built. That was the general concensus at that time. Now, any further action at that time on the part of Canada to grant an export permit to several companies and individuals who were willing to undertake the enterprise I am quite satisfied would have precluded the building of that line. That is my personal opinion, and Mr. Fish might differ but I still believe it would have stopped the building of that line.

MR. COMMISSIONER BRITNELL: That is Canadian sins of omission, if I may call them that, are not confined alone to the circumstances surrounding the Westcoast Transmission application and what happened there but would go back sometime before that?

MR. NIELSON: That is right, that is what I have reference to, it was prior to that. Now, after that line was proposed then all the stumbling blocks that could be put in the way of the F.P.C. were used most effectively to block export of the Canadian gas and they are still being used.

MR. COMMISSIONER BRITNELL: Thank you, Mr. Nielson.

THE CHAIRMAN: That would all be in the 1930's that you are referring to, the late 1930's and 1940's?

MR. NIELSON: Well, in the late 1930's

and early 1940's.

THE CHAIRMAN: Thank you very much, Mr. Nielson. You have been a very helpful witness and your brief has been very valuable from the point of view of the Commission as it contains some interesting thinking and good material. You have been a good witness and I thank you very much on behalf of the Commission.

MR. NIELSON: Thank you, Mr. Chairman, and if I could change the record a second time, I would like to strike that word "apprehension" and substitute "appreciation".

THE CHAIRMAN: Perhaps we should have a break before starting off with the next brief. We will take ten minutes now.

--- A short recess.

Submission of

MONTREAL PIPE LINE COMPANY LIMITED

Appearances:

Mr. Frederick C. Schultz	- President
Mr. J. Gordon Maclean	- Vice-President and Secretary
Mr. Karl D. Emerson	- Executive Assistant to the President; Treasurer and Assistant Secretary of Portland Pipe Line Corporation.

MR. PATTILLO: The second submission that we have for the day is one from the Montreal Pipe Line Company Limited which I am proposing to have marked as M-17-2.

---EXHIBIT NO. M-17-2: Submission of Montreal Pipe Line Company Limited.

MR. PATTILLO: I will call on Mr.Schultz to introduce the members of his group and proceed with the submission.

(The submission of the Montreal Pipe Line Company Limited was taken as read, entered in the record as Exhibit No. M-17-2, and the following short summary read by Mr. Schultz).

MR. SCHULTZ: My name is Frederick C. Schultz. I am President of Montreal Pipe Line Company Limited and its wholly-owned subsidiary,

Portland Pipe Line Corporation. Appearing with me are J. Gordon Maclean, Vice President and Secretary of Montreal Pipe Line Company Limited and Karl D. Emerson, Executive Assistant to the President, Treasurer and Assistant Secretary of Portland Pipe Line Corporation. These two companies own and operate the Portland-Montreal Pipe Line System.

A written submission concerning the main points of interest in connection with the historical background, development and operation of the Portland-Montreal Pipe Line System was furnished to this Commission at the beginning of July. We do not propose to read this submission in detail unless the Commission would like to have us do so, but we believe a short summary of the same will be helpful. We would be glad to have the submission as presented included in the record.

The Portland-Montreal Pipe Line System was originally constructed in 1941 by Standard Oil Company (New Jersey) to supply the Montreal refineries. These were previously supplied by tanker with imported crude moving up the St. Lawrence River during the seven months per year of open navigation. The Pipe Line System eliminates a 2,000 mile round trip by tanker on crudes coming from South America and provides day-to-day supply of crude throughout the year,

including the winter season.

Effective January 1, 1946, the System was purchased as a supply facility by The British American Oil Company Limited, Imperial Oil Limited, McColl-Frontenac Oil Company Limited and Shell Oil Company of Canada Limited, who were then each operating refineries in the Montreal area. In 1955 Canadian Petrofina Limited built a new refinery in the Montreal area and purchased a 10 per cent interest in this System.

The Portland-Montreal Pipe Line System is a crude oil transportation system consisting of a tanker unloading terminal at South Portland, Maine, with one 12-inch and one 18-inch line, 236 miles in length, between South Portland, Maine and Montreal East, Quebec, and eight pump stations, six in the United States and two in Canada, together with a delivery terminal at Montreal East connecting with the five refineries located in that area.

The Canadian section of the System is owned by the Montreal Pipe Line Company Limited, a Canadian corporation, and the United States section by Portland Pipe Line Corporation, a Maine corporation. Montreal Pipe Line Company Limited is owned by the five Canadian oil companies previously mentioned (Imperial 36 per cent, Petrofina 10 per cent, and the other three,

18 per cent each). Portland Pipe Line Corporation is entirely owned by Montreal Pipe Line Company Limited.

This Pipe Line System is entirely dependent on crude oil receipts by tanker at South Portland, Maine, mainly from Venezuela and the Middle East.

System capacity has been increased from 60,000 barrels per day in 1946 to 253,000 barrels per day at the present time. During this period expansion projects have been carried out annually in order to supply the year-to-year increase in crude requirements of the five Montreal East refineries. During 1957 a total of around 81½ million barrels, or slightly over 223 thousand barrels per day, were delivered through the System to these refineries.

Gross plant investment in the System as of December 31, 1957, totalled $37,352,000. System expansion has been financed by retained earnings and long-term loans from banks and insurance companies guaranteed by throughput agreements by the five Canadian oil companies. The outstanding balance of long-term loans of the two Pipe Line Companies as of June 30, 1958, totalled $7,721,667. In addition, Portland Pipe Line Corporation has an outstanding short-term loan of $700,000, making a total present loan balance of $8,421,667. No

dividends have been paid to the Canadian oil companies except two dividends aggregating $414,100 which were paid in 1946 and 1947 by Montreal Pipe Line Company Limited. Operating revenue for 1957 totalled $10,193,902, with net income $2,384,577.

Crude oil tendered at the South Portland, Maine, terminal is accepted for movement through the Pipe Line System under Portland Pipe Line Corporation's tariff I.C.C. No. 2 which has been in effect since June 1, 1946. Portland's tariff for transportation for movement from South Portland, Maine, to the International Border is 6 cents per barrel plus an additional charge of 2 cents per barrel as a terminal handling charge at South Portland, or a total of 8 cents for handling and transportation through the United States section. The charge of Montreal Pipe Line Company Limited for transportation from the International Boundary to Montreal East, Quebec, is 3 cents per barrel Canadian currency, plus an additional charge of 1/2 cent per barrel for heavy crude (under 30° API gravity).

The written submission presented to this Commission covers details in connection with the financial structure and history, increase in capacity steps, summary of the present system and operation, together with other related items. It

[illegible]

does not seem necessary to review these details orally but we will try to answer any questions you may have.

THE CHAIRMAN: Thank you, Mr Schultz. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr.Chairman.

Mr. Schultz, how much is it costing at the present time per 100 barrel-miles, the two companies, to transport oil from Portland to Montreal?

MR. SCHULTZ: I will give you the 1957 cost, operating expense, excluding income tax. These are cents per barrel per one hundred miles: 2.75 cents; other charges, .13. That is a total of 2.88.

MR. PATTILLO: What is the length of the ---

MR. SCHULTZ: Two hundred and thirty-six miles.

MR. PATTILLO: What is the tariff again, total tariff?

MR. SCHULTZ: The total tariff, including handling charges, is 11 cents.

MR. PATTILLO: And that handling cost at South Portland, is that included?

MR. SCHULTZ: That is included, the 2 cents included in the 11 cents.

MR. PATTILLO: But in the 2.88 it

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

isn't included?

MR. SCHULTZ: No. The 2 cents is a charge, a revenue charge.

MR. PATTILLO: Oh, I understand that, but what I am trying to get at is what is the cost to the company. What is that handling cost? Does the 2.88 include everything?

MR. SCHULTZ: Includes everything; that is right.

MR. PATTILLO: In the last complete year, 1957, what was the reported return on the capital employed?

MR. SCHULTZ: We made a calculation here the other night; gross investment, January 1st, 1957 -- we don't have with us the average gross investment for the year, but that gross investment, January 1st, 1957, was $35,335,000. The return for the year was 6.75 per cent.

THE CHAIRMAN: You gave the 1956 figures, didn't you?

MR. SCHULTZ: No, sir; these are 1957.

MR. PATTILLO: As at the first of the year it would be?

MR. SCHULTZ: As at the first of the year.

THE CHAIRMAN: I beg your pardon.

MR. PATTILLO: And that would be after you deducted the interest on your funded debt?

The interest on your funded debt would be for 1956. Your funded debt interest was $297,000 some odd dollars, so that you would have an additional return of .84 per cent? If you were required to pay your interest on your funded debt out of your rate of return, which is the generally accepted practice, as I understand it, in regulated tariff concerns, you would have a rate of return of $7\frac{3}{4}$ per cent before interest?

MR. SCHULTZ: I do not think it would be quite that high. If we had interest on long term debts in 1957 of $276,155.

MR. PATTILLO: I am sorry. You are quite right. I was looking at the 1956 interest. It would be .74 per cent.

MR. SCHULTZ: I do not think we can make that calculation right here. We will be glad to give it to you later.

MR. PATTILLO: I wish you would do that. Now, have you made a calculation as to the rate of return on the original capital investment of the shareholders.

MR. SCHULTZ: No, sir.

MR. PATTILLO: As I understand it from reading your statement, these shareholder companies whom you name have in the aggregate paid in something more than $3,000,000.00?

MR. SCHULTZ: It is in the submission

MR. PATTILLO: Could we get the exact figure?

MR. SCHULTZ: Actually on page 17 of the submission under "capitalization - - original (1946)" it shows: Capital stock, Portland Pipe Line Corporation, $1,150,100, and Montreal Pipe Line Company Limited, $2,070,500.00; making a total of $3,220,600.00. That was the original out of the four companies in 1946.

MR. PATTILLO: Had the shareholders, the originals or the one that has joined since, Petrofina, subscribed for and paid for any additional shares of capital stock except the original total of $3.2 million?

MR. SCHULTZ: No addition.

MR. PATTILLO: And on the $3.2 million they have received two dividends aggregating something over $400,000.00?

MR. SCHULTZ: $410,000.00.

MR. PATTILLO: And in the year 1957 what was the net profit of the corporation after Income Tax?

MR. SCHULTZ: This shows that for the year 1957 it was $2,384,577.00. May I say that in addition to this capital stock, the share of the holder companies, of course, guaranteed the loans when it came into the business. So it would seem as if they have that additional money

in there with that guarantee, wouldn't you think that.

MR. PATTILLO: It is not my job to think. It is my job to ask some questions. But could I suggest this to you, that so long as you owned the pipe line, so long as you had the refineries in Montreal, and you had the only refineries in Montreal, and you had the source of crude, there was not very much risk about the guarantee?

MR. SCHULTZ: Well, except that at the present time - - I think you mentioned yesterday - - the Government might build a pipe line down here and bring western Canadian crude down. If that happens, I would imagine there would be some risk, unless you buy this system at the same time.

MR. PATTILLO: We will come to that in a minute. Of course, I have no power, but, unless somebody makes a decision to discontinue this pipe line, would you agree with me that there wasn't any risk that you could see in the project?

MR. SCHULTZ: I would say this. Any time you have a trunk pipe line there is a risk that somebody is going to find oil right alongside a consuming and delivering area and put the pipe line out of business. That has happened, as you know, in other places.

MR. PATTILLO: That is the risk that you see?

MR. SCHULTZ: Just to answer your question, I do not think you build a pipe line and figure that you have no risk, because I think there is risk involved.

MR. PATTILLO: Now let me ask you this. Would it be possible to reverse the flow of this pipe line without any additional capital costs?

MR. SCHULTZ: It is always possible to reverse the flow if you discontinue the present movement. You would have to build an additional station at the Montreal end. We have made a rough calculation which we think gives an indication of what would be involved. An initial station at the Montreal end to pump through both lines - - 12-inch and 18-inch line - - we estimate, and in addition you would have to make some changes along the system at the different stations in order to permit reversing the flow.

MR. PATTILLO: I suppose you would be able to use the pumping station that you had at Portland? You may be able to salvage something out of that?

MR. SCHULTZ: These figures include moving equipment, for example, for St. Cesaire station. We estimate that $1,095,000.00 new investment would be involved in that reversal of

flow on that one, plus other stations along the line. That would give you, with one station operation only, around 50,000 barrels a day. If you, in addition to setting up that one station, also used a second station at Highwater at the international border, you would increase the flow to around 100,000 barrels a day.

MR. PATTILLO: What would the capital cost be?

MR. SCHULTZ: That would add another $190,000.00, which would make a total of $1,285,000.00 for a two-station operation.

MR. PATTILLO: And what would it cost the company to transport, with the reverse flow, 100,000 barrels a day?

MR. SCHULTZ: We have an estimate here. As I have mentioned, I think, any estimate of this kind would depend on the conditions at the time you undertake to make the change, but we feel that these figures would give you an indication. For 50,000 barrels a day, and this is on the basis of cutting back your operation to minimum labour and reducing everything to a minimum, with no profit, but assuming you would get depreciation on present investment - - 14.8 cents per barrel on 50,000 barrels a day, and 8.3 cents per barrel on 100,000 barrels per day. I would like to make the point that that includes

no profits.

MR. PATTILLO: I understand. You just get your depreciation.

MR. SCHULTZ: This would be the type of operation you were talking about from Western Canada to Montreal?

MR. PATTILLO: Yes.

MR. SCHULTZ: Now, I assume, if I may say this, that when you talk about reversal of flow you are thinking of Western Canadian crude coming in here and going to Portland and to, say, East Halifax. We looked at a tanker rate, and we have a figure here for Portland to Halifax. You have a range. If you had the USMC flat rate to Halifax it would be 14.6 cents a barrel. The USMC minus 40 per cent rate would be 8.7 cents a barrel, or about 9 cents, from Portland to Halifax. So on 50,000 barrels a day movement you would have 9 plus 14.8 cents, which is 23.8 cents per barrel. On 100,000, you would have 17.3 cents per barrel. That is without any profit.

MR. PATTILLO: Did you take into consideration tanker rates from Portland to Saint John?

MR. SCHULTZ: No, sir.

MR. PATTILLO: I assume they would be very similar?

MR. SCHULTZ: I think I have that here on a comparable basis. We did not include it in that figure. Portland to Halifax would be 14.6 cents a barrel at the USMC flat rate. The movement to Saint John New Brunswick, would be 12.6 cents per barrel. On the USMC minus 40 per cent rate, where the Halifax rate would be 8.7 cents a barrel, we do not have the Saint John equivalent. It would be a little lesss. Apparently the distance is a little less.

MR. PATTILLO: It would be around 7 cents?

MR. SCHULTZ: Probably.

MR. PATTILLO: Those are all the questions that I wish to ask. I think we covered as to who the shareholders were. Perhaps we did not get who the directors of this company were.

MR. SCHULTZ: We have twelve directors. Do you want the names?

MR. PATTILLO: The names and residence.

MR. SCHULTZ: Do you want the citizenship?

MR. PATTILLO: If you have it?

MR. SCHULTZ:

T. V. Anderson, Montreal (Canadian)

J. A. Cogan, Toronto (American)

F. G. Cottle, Toronto (Canadian)

A. G. Farquharson, Montreal (Canadian)

J. W. Hamilton, Toronto (Canadian)

G. S. Hanna, Montreal (Canadian)

F. C. Lantz, Toronto (Canadian)

E. D. Loughney, Toronto (American)

H. T. O'Neill, Toronto (Canadian)

R. P. Ritchie, Toronto (Canadian)

D. B. Vale, Toronto (English)

F. C. Schultz, Portland, Maine (American).

MR. PATTILLO: With the exception of yourself, Mr. Schultz, all of those persons are employees of the shareholder companies?

MR. SCHULTZ: That is correct.

THE CHAIRMAN: Mr. Frawley?

MR. FRAWLEY: Thank you, Mr. Chairman.

And just for the record, Mr. Anderson is McColl, Mr. Cogan is Imperial Oil, Mr. Cottle is Imperial Oil, Mr. Farquharson is McColl-Frontenac, Mr. Hamilton is Imperial Oil, Mr. Hanna is Petro-fina, Mr. Lantz is Imperial Oil, Mr. Loughney is B-A, Mr. O'Neill is B-A, Mr. Ritchie is Shell, Mr. Vale is Shell, and you, Mr. Schultz, are the president and chief executive officer of the company.

MR. SCHULTZ: That is correct.

MR. FRAWLEY: I noticed from my search of the file in the company's division at Ottawa that you issued supplementary letters patent on the 3rd of October, 1956, increasing your capital by creating 20,000 additional shares at a par value of $100 each. Why did you issue that stock in October, 1956?

MR. SCHULTZ: That is correct, but I am not sure that that answers Mr. Pattillo's question directly about additional stock. This stock was issued in exchange for Portland Pipe Line Corporation stock. In other words, Montreal, through that exchange, became the holding company.

MR. FRAWLEY: That didn't take place until October, 1956?

MR. SCHULTZ: That is correct.

MR. FRAWLEY: Now, British Petroleum -- we asked Mr. Down some questions about that, and my question is a very simple one: will B.P. be allowed to use your line when they are set up and their refinery is completed without becoming a shareholder?

MR. SCHULTZ: You mean our system?

MR. FRAWLEY: Yes.

MR. SCHULTZ: Well, they have indicated to us last year that they have made a decision to build a new refinery in the area and are interested in obtaining space in our system, are interested in participation, and we understand discussion is going on between the five shareholder companies in B.P. with regardto purchase and sale of participation.

MR. FRAWLEY: I am not concerned with whether they do, and the Lord forbid that I would help them to bring any more Middle East crude into Montreal. But suppose that they seek to use your pipe line, would you permit them to use it?

MR. SCHULTZ: Mr. Frawley, they have raised the question about participation. I think you understand that the Portland Pipe Line Corporation is a common carrier.

MR. FRAWLEY: That is the only answer I expected.

MR. SCHULTZ: It just so happens that

the Montreal Pipe Line Company Limited is not a common carrier in Canada, but I think if anybody wanted to participate and wanted space, the Board of Transport Commissioners under the Act could have it declared a common carrier.

MR. FRAWLEY: You say you are a common carrier operating under the regulation of the Interstate Commerce Commission?

MR. SCHULTZ: Yes.

MR. FRAWLEY: And I suggest that you would have to carry B.P. oil at least up to Vermont?

MR. SCHULTZ: That is correct.

MR. FRAWLEY: I see in your brief that this line was built by the Jersey company as a war measure, you say?

MR. SCHULTZ: Yes.

MR. FRAWLEY: I find that Professor A. W. Currie, Professor of Transportation at the University of Toronto, wrote this in an article called "The Transportation Problem" which was published in The Annals of The American Academy of Political and Social Science, September, 1947, page 85 of this booklet:

"Enemy submarines sank a number of tank steamers in the Gulf of St. Lawrence and off the Nova Scotia coast. To relieve the situation, the Government constructed a

[illegible]

pipe line from Portland, Maine, to Montreal."

THE SCHULTZ: You say one government? Let me say this, that it is an incorrect statement.

MR. FRAWLEY: I will read it again.

"To relieve the situation, the Government constructed a pipe line from Portland, Maine, to Montreal."

Have you been the president since the inception of this company?

MR. SCHULTZ: This company was organized in 1946, and the four Canadian companies purchased the system from Jersey. The previous company was the Portland Pipe Line Company, and I was president of that company, I think, from about 1942, the end of 1942 and 1943, and then became president of the new company. I have been associated with this operation since oil started moving through the system in November, 1941.

MR. FRAWLEY: You say that this statement of Dr. Currie is not correct?

MR. SCHULTZ: The original construction was entirely financed by the New Jersey Company.

MR. FRAWLEY: What is the meaning of the expression "as a war measure"?

MR. SCHULTZ: I think you know that in 1941 there was considerable concern at that time as regards the United States entering the war, and in connection with that certain war measures, I

would say, presumably were undertaken, and under an Act passed by the United States Congress the President of the United States was authorized to issue a proclamation to give any war project the right of expropriation to carry it out, and our project was declared a measure under that Act. I think that is where that expression comes from. I believe in Canada we had a council here which gave us expropriation rights in Canada, too.

MR. FRAWLEY: Did the project carry with it any accelerated depreciation?

MR. SCHULTZ: Yes. I don't know that we have just the exact -- we had some accelerated depreciation provision in both the United States and in Canada.

MR. FRAWLEY: But, notwithstanding that, the situation as to depreciation is, I am sure, as you have indicated in this brief?

MR. SCHULTZ: That is correct.

MR. FRAWLEY: Now, would you turn to page 5 ---

MR. SCHULTZ: Perhaps Mr. Emerson might have something further on that.

MR. EMERSON: The figures in the submission, in the balance sheets, exhibits, we have corrected, and I think you can appreciate that for tax purposes we have taken a little depreciation that is not recorded here. In

Portland, for example, we have taken some depreciation under the tax laws which, under ICC accounting, we are not permitted to record, and I think to answer your question perhaps in a concise way, our net investment on a tax basis is $1,600,000 less than it is on our book basis, which is recorded in the balance sheets.

MR. FRAWLEY: Now, what is the situation with regard to the Canadian portion of your line? Are you saying deferred taxation is an expense?

MR. EMERSON: The figure I gave you was for both sections, and that is $1,600,000 less on a tax basis than it is on a recorded book basis.

MR. FRAWLEY: You are not prepared to say deferred income tax is an operating expense under ICC regulations, and all I am asking is, what are you doing with the land over which the ICC have no jurisdiction?

MR. EMERSON: That has gone through a period, I think, of several changes, and it would be very difficult to sum up. I think Mr. Maclean might come in a little bit on that.

MR. MACLEAN: Since 1954 we have accumulated as an expense deferred taxes.

MR. FRAWLEY: So since 1954 when capital cost was added to the income tax regulations you have availed yourself of deferred tax and you have shown it against income?

MR. EMERSON: Yes.

MR. FRAWLEY: And if you reversed that figure and made an adjustment eliminating that, could you take me to the figure in the records where it is shown?

MR. EMERSON: Approximately one million dollars in depreciation.

MR. FRAWLEY: Because of your taking that tax position?

MR. MACLEAN: That is right.

MR. EMERSON: I might add something there, Mr. Frawley. I think the $1,600,000 figure -- Montreal has taken, if you will, or deducted $950,793 over tax depreciation than they have on a book basis. Portland is around $649,400.

MR. FRAWLEY: Now, would you look at page 5 and look at the figure of investment in fixed assets at December 31st, 1957, $37,352,375? How much of that represents an investment in the United States and how much an investment in Canada?

MR. EMERSON: In the United States, $25,946,721; in the Montreal section, $11,405,654. I think that should total up.

MR. FRAWLEY: In view of that, this is what is troubling me a little bit. You say that your investment in fixed assets in the United States is $25,946,721. Now, I have had sent to me by the Interstate Commerce Commission a

[illegible]

[illegible] portion [illegible]

[illegible]

document that they call a Consent Decree, Valuation, dated February 28th, 1958, in which they have arrived at fixed assets as of December 31st, 1956, the property owned and used by the carrier, of $23,901,600. I wonder if you would explain the difference?

MR. EMERSON: I think the document you are referring to is a valuation found by the Interstate Commerce Commission which would be used for rate-making purposes.

MR. FRAWLEY: That is right, that is what it says.

MR. EMERSON: The figures they generally arrive at are essentially reproduction costs less new or depreciation or some allowance for depreciation, plus an allowance for working capital and something for a going concern.

MR. FRAWLEY: That is precisely what I would like to discuss with you for a moment. You haven't shown it, but I wonder if you built up a figure of the value of this investment using the formula which was used in arriving at the extent of your investment in the United States found in this document dated 28th February, 1958, because I find that they arrive at it, and it is quite simple, in this fashion, by taking the original cost, excepting land and rights-of-way, and then adding something for working capital. Now, you

haven't done that, I suppose?

MR. EMERSON: I am sure the Commission will not appreciate your term that it is a simple procedure, because I can assure you it is not. Perhaps I don't understand your question or the point you are making.

MR. FRAWLEY: The purpose is simply to find out how low we can get down this investment which may be voided if Alberta crude comes into Montreal in a pipe line. I don't expect you to give me an answer here.

MR. SCHULTZ: I would like to answer your question today in this way. You raise a very interesting question. If you take the ICC valuation, I would say it is higher than our net book figures. We have a calculation here which I think might be well to put on the record in connection with your question. It refers to the statement Mr. Emerson made that the ICC issued a valuation at the end of each year for each pipe line system under its jurisdiction for rate-making purposes. In arriving at this valuation, the Commission calculates reproduction costs new less depreciation of facilities used in common carrier service and makes an allowance for working capital and going concern value. At the end of 1956 the ICC valuation of the Portland Pipe Line Corporation was $23,901,600. Now,

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

projecting this valuation forward to the end of 1957 and adding the estimated equivalent valuation for Montreal Pipe Line Company Limited, we estimate the equivalent of the ICC valuation for the Portland-Montreal System at the end of 1957 was around $35 million.

/dol
7

MR. FRAWLEY: You say this figure of $23,901,600 would become about $35 million under the ICC formula?

MR. SCHULTZ: No, the $23 million was the Portland Pipeline Corporation in the United States. That is the ICC valuation for that section that was under their jurisdiction, but projecting that to the end of 1957 and then estimating an equivalent valuation for Montreal Pipeline Company Limited on the same basis we arrive at a total for the system of $35 million.

MR. FRAWLEY: That is interesting, you are not able to tell me what the $23,901,600 would become under your projection, just the United States section?

MR. SCHULTZ: I do not have it here -- wait a minute, we have it right here. You asked what the 1956 figure of $23,901,600 would become at the end of 1957? That is $24,297,000 and then we estimate Montreal on an equivalent basis at the end of 1957 would be $10,714,000 which makes approximately the $35 million valuation as per the ICC formula.

MR. FRAWLEY: Thank you very much.

THE CHAIRMAN: I hope you were not suggesting if there was a pipeline to Montreal the Province of Alberta would buy this pipeline?

MR. FRAWLEY: Well, we have a lot of

pipelines, we might buy it for scrap and move it out there.

THE CHAIRMAN: That is the lifting cost?

MR. FRAWLEY: Just apropos of that, I have s een some calculations of what it would cost to move crude to Montreal and some people have an idea of 7 cents and as I read your submission it is there too. The shipper of oil to Montreal should pay to liquidate the investment of your company?

MR. SCHULTZ: Well, I do not think we said that here, we did not say who was going to pay it. All we indicated was - -

THE CHAIRMAN: Do not accuse Mr. Schultz of the sins of his fathers.

MR. FRAWLEY: 5 per cent would represent a charge of approximately 7 cents per barrel of crude during the three-year period assuming the average of 250,000 barrels a day.

MR. SCHULTZ: We thought that was a very interesting figure.

MR. FRAWLEY: It is the same figure I find in a tabulation so starting from the wellhead and entering Montreal, to bring crude down your group feels that we should pay 7 cents to liquidate your investment if our crude comes into Montreal, that is what this means, is it not?

MR. SCHULTZ: We start this off by saying, "If through action beyond the control of refiners - -".

Maybe five Canadian companies would suffer a loss. Now, someplace it would seem like through no fault of ours we have been running the service to Eastern Canada in supplying crude to these refineries for the product requirements of Eastern Canada in a way -- well, I do not know of any other way it could have been supplied on a year-round basis and certainly in the volumes, you could not get enough ships up the river to deliver this amount even in the open water season. If through no fault of ours we are put out of business, particularly from some government action, it would seem somebody ought to pay somebody for what goes out the window.

MR. FRAWLEY: Well, you are almost putting it on a basis of government expropriation and when they expropriate they should pay something.

MR. SCHULTZ: I would not say it would be expropriation but it would be something along that line in a way, do you not think?

MR. FRAWLEY: Is it not just what you have to expect in this oil business and pipeline business?

MR. SCHULTZ: I think in the oil business you take all kinds of risks but assume you are talking on a competitive basis, we have been the only supplier of crude into this area, nobody else has had the facility, if we are put out of business on a competitive basis that is one thing but on a non-competitive basis

that is another.

MR. FRAWLEY: That is a distinction you draw. I was going to call to your attention, I do not think anyone did go to the help of Interprovincial when they found they had a lot of storage at Superior, Wisconsin which they did not need.

MR. SCHULTZ: I do not think Interprovincial -- I would not feel too sorry for them on that basis because eventually they will get their money back.

MR. FRAWLEY: I suppose they can.

THE CHAIRMAN: Do these deficiency agreements of your major shareholders cover the principle on the outstanding funded debt as well as the interest?

MR. SCHULTZ: Yes, sir. They state in substance that the signing company guaranteeing the lines agree to tender a certain amount of crude through the system to put the pipeline companies in sufficient funds to amortize and pay the interest currently and if the pipelines do not have sufficient funds the guarantee companies - -

THE CHAIRMAN: What I am getting at is, the dollar liability of the guarantor in effect -- perhaps I had better not call him that yet -- is the dollar liability of the major shareholders signed deficiency agreement measured by the outstanding

principal amount of the bonds plus interest?

MR. SCHULTZ: That is right, the remaining interest due.

THE CHAIRMAN: It does not stop at tendering oil?

MR. SCHULTZ: Well, actually these agreements state in substance as I have stated that if pipeline companies do not have sufficient funds to pay amortization and interest, the companies will provide those funds.

THE CHAIRMAN: Are all those agreements exactly the same?

MR. SCHULTZ: Yes.

THE CHAIRMAN: Are they entered into with both companies?

MR. SCHULTZ: Yes.

THE CHAIRMAN: I wonder if you would file with us a copy of one of those agreements made by one of the deficiency signatories, the same one for the Portland line and for the Montreal line?

MR. SCHULTZ: Yes, sir.

THE CHAIRMAN: Thank you. Mr. Schultz, I think all of us realize the situation under which this line was built back in 1941 and built at great speed for pipeline construction in those days. It was considered a very efficient line and was one of our life veins for oil in Eastern

Canada so there is no thought on the part of the Commission that we do not understand why that line was built. Thank you very much indeed for coming today and being so co-operative.

MR. SCHULTZ: Thank you.

THE CHAIRMAN: I believe tomorrow morning we have a submission from the United Electrical, Radio and Machine Workers?

MR. PATTILLO: That is right.

THE CHAIRMAN: I believe they understand we will be glad to sit at nine-thirty?

MR. PATTILLO: That is right.

MR. FRAWLEY: Is that the only submission that will be made tomorrow?

MR. PATTILLO: That is all.

THE CHAIRMAN: We will adjourn now until nine-thirty tomorrow morning in this Council Chamber.

---Whereupon these proceedings adjourned at 4.15 p.m., to resume at 9.30 a.m., Friday, July 18, 1958.